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FAIR EXPORT FINANCING ACT OF 1985

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ORIGINAL

HEARING

BEFORE THE

SUBCOMMITTEE ON INTERNATIONAL FINANCE
AND MONETARY POLICY

OF THE

COMMITTEE ON
BANKING, HOUSING, AND URBAN AFFAIRS
UNITED STATES SENATE

NINETY-NINTH CONGRESS

FIRST SESSION

ON

S. 1763

TO ELIMINATE FOREIGN PREDATORY EXPORT CREDIT PRACTICES,
ESTABLISH A TIED-AID CREDIT FACILITY, AND FOR OTHER PURPOSES

OCTOBER 30, 1985

Printed for the use of the Committee on Banking, Housing, and Urban Affairs

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I

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FAIR EXPORT FINANCING ACT OF 1985

WEDNESDAY, OCTOBER 30, 1985

U.S. Senate, Committee on Banking, Housing, and Urban Affairs, Subcommittee on International Finance and Monetary Policy,

Washington, DC.

The subcommittee met at 9:30 a.m., in room SD-538, Dirksen Senate Office Building, Senator John Heinz (chairman of the subcommittee) presiding.

Present: Senators Heinz, Gorton, Mattingly, Proxmire, Dixon, Sasser, and Dodd.

OPENING STATEMENT OF SENATOR HEINZ

Senator **Heinz**. Good morning, ladies and gentlemen.

Today the Subcommittee on International Finance and Monetary Policy will conduct a legislative hearing on S. 1763, the Fair Export Financing Act of 1985.

This is not the first time that this subcommittee or the Senate will examine legislation to create an export credit war chest. Back in April 1981 I, together with Senator Garn, the chairman of the committee, and several other members introduced the Competitive Export Financing Act of 1981. That bill authorized a $1 billion war chest to "counter and ultimately discourage the use of" heavily subsidized export credits by our trading competitors. Later that year the Senate Banking Committee by a vote of 11 to 1 sent that bill to the floor.

There was not a lot of support for our proposal within the Reagan administration at that time, so the bill was not enacted. But the problems that the legislation sought to address did become worse. Subsequently, on May 27, 1982, I was joined by Senator Garn and others on and off the committee in introducing a $2 billion export credit war chest bill. Although that bill was not enacted, there is no doubt its presence contributed to our success in improving the Organization for Economic Cooperation and Development [OECD] arrangement on export financing.

This matter has not been before the Congress—Senator Proxmire—as long as the Genocide Convention, but it has been here a long time. And as the Senator from Wisconsin has shown us, if you are persistent, sometimes the administration comes around—at least in part.

I congratulate the administration on its endorsement of the war chest concept, and I applaud it for submitting enacting legislation, which is the subject of this hearing. The concept of the war chest is nothing more than the age-old idea that you must fight fire with fire.

I might observe that economists make wonderful, convincing arguments about how export subsidies distort free trade and are costly and inefficient. In the area of export credits, however, these arguments too often neglect the fact that there is no free trade to begin with. They too frequently gloss over the overwhelming evidence that when the United States stays out of the mixed-credit business the practice does not go away, only the export business goes away. We're rather like the man who sits down at the football game while everyone else is on their feet cheering. We not only miss the action, but we succeed in leaving ourselves nothing to cheer about.

The Japanese, the French, the British, the Belgians, and many others are out there today offering mixed credits for what has been business for American exporters. Some of these countries would like to sit down, to get away from mixed credits too, but the United States has given them a beautiful example of what that accomplishes if you stay out while others are still in, offering mixed credits.

Last year 6.5 billion dollars' worth of export credit offers and $2 billion of actual sales went to mixed credits, and very little of that came to exporters located in this country. And that is only the tip of the iceberg, for there will be billions and billions of dollars of followon of sales of replacement parts, upgrades, and other goods and services going to the supplier who was willing to offer a mixed credit to gain the initial sale.

Now just to make sure that the record is accurate, let me emphasize that I am against subsidies—this kind of subsidy or any other kind of subsidy, as are Senators Gramm, Garn, Proxmire, and I imagine all the members of this committee. I think the business community in this country is against Government subsidies. But the issue here today is really not to debate whether subsidies—export credit subsidies, mixed credits, what have you—are good or bad. We all agree that they're bad. The real question is what and how to get rid of them.

And the way, at least, I believe, to solve this problem of mixing foreign aid with export credits is by means of negotiation. But to have successful negotiation, you have to give people a reason to sit down and negotiate with you. And what reason do the French have right now when they're the winners in this mixed-credit competition, when mixing some foreign aid money in a credit offer means a lucrative sale for the French bidder. why should they stop? It works. Arguments about trade distortion are likely to fall on deaf ears—those wonderful arguments of the economists don't really mean much when somebody is offering mixed credits, getting away with it, and it works to their advantage. And that distortion certainly is.

The concept underlying the war chest legislation, such as S. 1763 is a very simple one and the goal is to achieve a condition where export sales are determined on the basis of price, quality, reliability, and so forth, and where export financing is neutralized as a factor in the sale. Our exporters can and will compete and compete successfully with anybody on that basis. The first stage is to match at least foreign credit offers. A mixed-credit offer then becomes too expensive if it yields no trade advantage. Then the conditions will be right for negotiating an end to the practice altogether. But I must emphasize that, to this Senator at least, a climate for successful negotiations will be hard to reach until the French and others—and I do mean others because the French are not the only people who are violating the letter and spirit of fairness in international competition—others believe that we are serious in our willingness to deprive them, the offenders, of benefiting from offering mixed credits.

That process may be accelerated through the aggressive or offensive, if you will, use of mixed credits, using them to penetrate the traditional market areas of those countries who rely on them most. Then we not only demonstrate that mixed-credit competition yields no benefits, but we drive home the reality that they can cause real losses to traditional markets at great cost as well.

I hope that these factors will be examined in today's hearing as we consider this measure in the subcommittee and in the Senate. We are not dealing with an academic problem or a problem of the future. It is an ongoing problem. It is a problem that's getting worse and I hope that we can move the war chest legislation along, get it to the President's desk as soon as possible. While I recognize there may be some differences of opinion on various elements of the bill before us, nonetheless there should be—and I believe there is—broad agreement on the need for legislation of this type. I believe that we can, in this committee and in the Senate, work together to enact a program to bring about a successful international agreement to end mixed credits, if we will give our negotiators the credible support that they obviously need.

[Copy of proposed bill follows:]

II

99TH CONGRESS
1ST SESSION

S. 1763

To eliminate foreign predatory export credit practices, establish a tied aid credit facility, and for other purposes.

IN THE SENATE OF THE UNITED STATES

OCTOBER 10 (legislative day, SEPTEMBER 30), 1985

Mr. HEINZ (for himself, Mr. GARN, Mr. DIXON, Mr. DANFORTH, and Mr. CHAFEE) introduced the following bill; which was read twice and referred to the Committee on Banking, Housing, and Urban Affairs

---

A BILL

To eliminate foreign predatory export credit practices, establish a tied aid credit facility, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Fair Export Financing Act of 1985".

SEC. 2. CONGRESSIONAL FINDINGS.—(a) Congress finds that—

(1) tied aid and partially untied aid credits offered by other countries are a predatory method of financing exports because of their market-distorting effects;

(2) these distortions have caused the United States to lose export sales, with resulting losses in economic growth and employment;

(3) these practices undermine export credit discipline under the Arrangement on Guidelines for Officially Supported Export Credits established through the Organization for Economic Cooperation and Development;

(4) support of commercial exports by donor countries with tied aid and partially untied aid credits impedes the growth of developing countries because it diverts development assistance funds from essential developmental purposes;

(5) establishment of a temporary tied aid credit facility in the Department of the Treasury for the limited purpose of targeting the export markets of those countries which make extensive use of tied aid or partially untied aid credits for commercial purposes and which block progress toward a comprehensive arrangement restricting the use of tied aid and partially untied aid credits for commercial purposes will encourage the successful conclusion of negotiations aimed at such an arrangement.

SEC. 3. AMENDMENTS TO THE TRADE AND DEVELOPMENT ENHANCEMENT ACT OF 1983.—(a) Section 642 of the Trade and Development Enhancement Act of 1983 (12 U.S.C. 635o) is amended—

(1) by amending subsection (1) to read as follows—

"(1) to expand employment and economic growth in the United States through the elimination of predatory concessional financing in the form of tied aid or partially untied aid credits engaged in by nations whose exports compete with United States exports, and thereby restore export competition to a market basis;";

(2) by amending subsection (2) to read as follows—

"(2) to stimulate the economic development of countries in the developing world by taking measures to eliminate the misallocation of official development assistance funds which occurs when such funds are employed in tied aid or partially untied aid credits, the primary purpose of which is the promotion of the commercial exports of the donor country rather than the development of the recipient country; and";

(3) by repealing subsection (3); and

(4) by renumbering subsection (4) as subsection (3) and amending it to read as follows—

"(3) to establish a temporary tied aid credit program to combat the predatory concessional credit programs of foreign governments and thereby encourage them to enter into effective and comprehensive arrangements with the United States to restrict the use of tied aid and partially untied aid credits for commercial purposes and to limit and govern the use of export credit subsidies generally.".

(b) Section 643 of the Trade and Development Enhancement Act of 1983 (12 U.S.C. 635p) is amended—

(1) by inserting in the first sentence of the introductory paragraph the words, "or partially untied aid" after the words, "the use of tied aid";

(2) by repealing subsection (1);

(3) by renumbering subsection (2) as subsection (1) and amending it to read as follows—

"(1) to restrict the use of tied aid and partially untied aid credits for commercial purposes by a date certain;";

(4) by repealing subsection (3);

(5) by renumbering subsection (4) as subsection (2) and amending it to read as follows—

"(2) to raise the threshold for prior notification of the use of tied aid or partially untied aid credit to a 50 per centum level of concessionality; and";

(6) by repealing subsection (5); and

(7) by renumbering subsection (6) as subsection (3) and amending it to read as follows—

"(3) to prohibit the use of tied aid or partially untied aid credit for production facilities for goods which are in structural oversupply in the world.".

(c) Section 644 of the Trade and Development Enhancement Act of 1983 (12 U.S.C. 635q) is amended to read as follows—

"ESTABLISHMENT OF A TIED AID CREDIT PROGRAM IN THE DEPARTMENT OF THE TREASURY

"SEC. 644. (a)(1) The Secretary shall establish within the Department of the Treasury a program of tied aid credits for United States exports.

"(2) The program shall be carried out in cooperation with the Bank or with private financial institutions or entities, as appropriate.

"(3) The program may include—

"(A) the combined use of guarantees, insurance, or extensions of credit offered by the Bank with grants offered by the Department of the Treasury, by methods including blending of financings or parallel financing; and

"(B) the combination of grants offered by the Department of the Treasury with financing offered by private financial institutions or entities, by methods including blending of financings or parallel financing.

"(b) Funds appropriated under this part may be combined with financing by the Bank or private commercial financing in order to offer, or arrange for, financing for the exportation of United States goods and services to countries or in sectors which are present or likely future export markets for any country which the Secretaries determines engages in predatory export financing through the use of tied aid or partially untied aid credits and which impedes progress toward the conclusion of a comprehensive arrangement to restrict the use of such credits for commercial purposes.

"(c) There is hereby authorized to be appropriated to the Secretary, without fiscal year limitation, for purposes of this part, $300 million: *Provided,* That notwithstanding any other provision of law, upon a declaration by the President that any portion of such funds is not required to achieve the purposes of this part, the funds so determined to be in excess of requirements shall cease to be available.".

(d) Section 645 of the Trade and Development Enhancement Act of 1983 (12 U.S.C. 635r) is repealed.

(e) Section 646 of the Trade and Development Enhancement Act of 1983 (12 U.S.C. 635s) is renumbered as section 645 and amended to read as follows—

"IMPLEMENTATION

"SEC. 645. (a) Prior to approving each financing under the tied aid credit program authorized by section 644, the Secretary shall seek the advice of the National Advisory Council on International Monetary and Financial Policies.

"(b) Each financing made pursuant to the tied aid credit program authorized by section 644 shall be on the terms consistent with the Arrangement, as in effect at the time such financing is approved.

"(c) The Secretary may issue regulations and take such other actions as may be necessary to implement this part.

"(d) The authorities contained in this part expire on September 30, 1987.".

(f) A new section 646 is added to the Trade and Development Enhancement Act to read as follows—

"REVIEWABILITY

"SEC. 646. Actions by the Secretary and the Chairman of the Bank pursuant to this part shall not be reviewable by any court, except for abuse of discretion.".

(g) Section 647 of the Trade and Development Enhancement Act of 1983 (12 U.S.C. 635t) is amended as follows—

(1) Subsection (1) is amended to read as follows—

"(1) the term 'tied aid credit' means credit—

"(A) which involves a grant element greater than zero percent, as determined by the Development Assistance Committee of the Organization for Economic Cooperation and Development;

"(B) which is tied, in fact or in effect, to procurement of goods and services from the donor country; and

"(C) which is financed either exclusively from public funds or partly from public and partly from private funds;";

(2) Subsection 647(2) is repealed and replaced by a new subsection 647(2) which reads as follows—

"(2) the term 'partially untied aid credit' means credit—

"(A) which involves a grant element greater than zero percent, as determined by the Development Assistance Committee of the Organization for Economic Cooperation and Development;

"(B) which is tied, in fact or in effect, to procurement of goods and services from the donor country and from a restricted number of countries; and

"(C) which is financed either exclusively from public funds or partly from public and partly from private funds;";

(3) Subsection 647(3) is repealed;

(4) Subsections (4), (5), and (6) are renumbered subsections (3), (4), and (5), respectively;

(5) A new subsection 647(6) is added to read as follows—

"(6) the term 'Secretary' means the Secretary of the Treasury;" and

(6) A new Subsection 647(7) is added to read as follows:

"(7) the term 'Arrangement' means the Arrangement on Guidelines for Officially Supported Export Credits established through the Organization for Economic Cooperation and Development.".

SEC. 4. The amendments made by this Act shall become effective ten days after enactment of this Act.

○

Senator **Heinz**. At this point I'd like to yield to my friend, my ranking member, Senator Proxmire of Wisconsin.

OPENING STATEMENT OF SENATOR PROXMIRE

Senator **Proxmire**. Thank you very much, Mr. Chairman.

Mr. Chairman, I'm going to review a little history too as we begin this hearing on a bill sponsored by the administration to increase export subsidies.

I can't help but look back to February 4 of this year, the last time Mr. Draper of the Export-Import Bank was before this committee. At that time the President had just submitted his 1986 fiscal year budget which called for an elimination of the Export-Import Bank's Direct Loan Program. Instead, the President proposed that the Export-Import Bank establish a new program to buy down interest rates on export loans made by the private sector where that was necessary to countersubsidize foreign competition.

That proposal was made to enable the Bank to disburse less money and thus assist in reducing our overall budget deficit.

In my opening remarks at the February hearing I stated my support for the President's proposal and noted it would be tough to win the fight to implement it. I quoted from the President's budget message in which he said:

> There will be substantial political resistance to every deficit reduction measure proposed in this budget. Every dollar of current Federal spending benefits someone. That person has a vested self-interest in seeing those benefits perpetuated and expanded.

It was my hope that exporters would realize they had much to gain—in fact, more than perhaps any other segment of our economy—from reducing our budget deficit and supporting the President's Export-Import Bank proposal. That did not happen, just as it did not happen with other groups benefiting from Federal spending programs.

As a result, we have not been able to shrink our budget deficit in any meaningful way.

Just last week we had another hearing on the overvalued dollar and the disastrous impact it is having on our export industries. Each and every witness, except Mr. Mulford from the Treasury Department who was speaking for the administration, testified that our massive budget deficits are the cause of our overvalued dollar and that the overvalued dollar causes our huge trade deficits. I know many American exporters are looking for any help they can find in their effort to compete for foreign sales. So we find our industries looking for subsidies from our Government to help overcome the competitive disadvantage they suffer from misaligned exchange rates.

But frankly I, for the life of me, can't think of anything more contradictory than for our Government to subsidize an operation that would benefit foreign consumers at the cost of our taxpayers, and that's exactly what this proposed war chest in the Treasury Department is designed to do.

We will be told by Mr. Mulford and Mr. Draper and others that we need this starter—and it's only a starter, $300 million—fund in the Treasury Department to strike back at those countries who use mixed credits to win export sales.

Yet we were told only 2 years ago by Mr. Mulford's predecessor that if the grant element in mixed credits ever reached 25 percent that would be too expensive to use. Now they are at 25 percent pursuant to an OECD agreement and we are told we must raise the grant element to 50 percent before they become too expensive.

We are also told that establishing a war chest to fund mixed credits is the only way to get other countries to stop this foolish subsidy practice.

Previously, Mr. Morris, of this administration, told us, "We cannot expect to eliminate the unfair initiation of mixed credits by engaging in this practice ourselves." Mr. Draper who's before us today previously told us, "Even if we had a big barrel of money for mixed credits, I don't think it would change the attitude of the various countries a bit."

So why the change of heart? Well, I'll tell you why the change of heart. The President saw that protectionist sentiment was growing on the Hill as a direct result of our overvalued dollar caused by budget deficits. Rather than deal with budget deficits, the administration is trying to buy off the trade problem by increasing export subsidies. This will only compound the problem. Mark my words, we may start this program with a $300 million annual fund, which is to expire in 1987, but as the President noted in February, "beneficiaries of Government programs want them perpetuated and expanded." So, too, will this program if we initiate it be expanded and perpetuated by those industries which will benefit from it.

So I hope we can keep these considerations in mind as we listen to today's witnesses. Thank you, Mr. Chairman.

Senator HEINZ. Senator Proxmire, thank you very much.

Senator Mattingly.

OPENING STATEMENT OF SENATOR MATTINGLY

Senator MATTINGLY. Thank you, Mr. Chairman.

I just have a brief opening statement. S. 1763, the Fair Export Financing Act of 1985 represents, I think, a watershed in this country's trade policymaking apparatus. For the first time we see industry, the Congress, and the administration working together to address a particular trade policy problem—that's the use of predatory financing to encourage exports.

The administration I think has long sought to end the growing use of these practices but was never willing to combat their use in kind. The United States has adhered to the provisions of the international agreement on official export credits which sets common interest rates and terms for credit subsidies. Our trading partners, however, offer grants and low-cost loans, misleadingly characterized as international development aid, thereby circumventing the agreement.

We've tried negotiating the elimination of these practices and we've tried to offset them through Export-Import Bank financing. Yet we have not really succeeded I think in either case. It's high time that we took a look at a more activist-type solution.

Now the legislation that is offered offers the possibility of beating our trading partners at their own game. I think it's only then that we will have the leverage necessary to convince these nations to eliminate their predatory financing practices.

I realize that there are budgetary concerns, that there are concerns that the amount of funding is too small, or that the program could become caught in bureaucratic political morass that will make it virtually inaccessible, which would be nothing new in this place.

If the Congress decides to support an export financing war chest, I think we need to make certain that we're going to use it. One question to keep in mind, though, as far as overall trade policy, is this really a free trade tool? We run around all the time talking about fair trade and saying that there's no longer any free trade. If this is a proposal that is really trying to promote fair trade and free trade in one proposal, what's the difference between that and the textile proposal, the shoe proposal or any of the other proposals lying out there in the weedpatch, so to speak?

So I would hope that this bill makes certain that we take a more activist, but positive position—not only the Congress but the White House also.

Thank you, Mr. Chairman.

Senator **Heinz**. Senator Mattingly, thank you.

Without objection, Senator Dixon's statement will be put in the record at this point.

STATEMENT OF SENATOR ALAN DIXON

Senator **Dixon**. Mr. Chairman, I am pleased to be here this morning as the subcommittee considers S. 1763, the administration's war chest proposal. We have a distinguished group of wintesses before us today, and I look forward to receiving their views.

I come to this hearing as a strong supporter of efforts to promote U.S. exports, and as a believer in the war chest concept. I do not like subsidized credit; I believe we must do everything we can to see that international trade finance is conducted on market-dictated terms, and without Government subsidies.

I think we need negotiating leverage, however, to get the kind of strong international agreements necessary to end credit subsidization, particularly the growing problem associated with so-called mixed credits. One of the essential elements necessary to get the right kind of international agreements is a strong Export-Import Bank. We must convince our competitors overseas that the United States will meet their efforts to capture trade through subsidized credit unless there is an agreement to limit those practices.

I therefore have consistently supported strong war chest legislation in my time in the Senate. Early enactment of effective legislation of this type will save us money in the long run by creating the pressure necessary to achieve agreements to limit and ultimately end subsidized financing.

I believe the administration's bill is a step in the right direction. Frankly, I am not sure it is large enough to have the impact we need. It is significantly smaller than legislation authored by the distinguished subcommittee chairman which I was pleased to cosponsor. However, it does represent real progress.

I will not take the time of my colleagues to again make the points I have made before this subcommittee on previous occasions. I congratulate the chairman for scheduling this hearing, and I hope it will lead to early action on a reasonable and workable war chest bill.

Senator **Heinz**. Senator Dodd.

OPENING REMARKS OF SENATOR DODD

Senator **Dodd**. Mr. Chairman, thank you. I have no real opening statement to make, just to briefly state that I'm pleased we have a bill in. I'm anxious to hear our witnesses respond to some of the questions that Senator Proxmire has raised in his opening statement and just to briefly state, my own concern is that there seems to be a kind of all over the lot on this issue.

Just a few years ago we had the administration—the President in fact in his State of the Union Message, issued a very strong statement in support of the Direct Loan Program in his State of the Union Message, and then to watch this last year the administration change its position on that and want to eliminate the Direct Loan Program, and we now have this request for a $300 million war chest to go to Treasury. There's tremendous confusion I think in the business community generally and my State, as I think most of you know, is the most dependent State in the United States on export markets on a per capita basis, so I get a lot of it from my industries and businesses—the confusion that exists over who is really running trade policy, whether or not this ought to more properly be with the Export-Import Bank if we're really going to begin this, where does it take us, how does it run, which countries will be affected, who qualifies, what sectors of the economy? These are the kind of questions I'll raise this morning on this because there is a lot of unease and I appreciate the President's speech. Certainly the events of September 22-23 were I think very helpful, a little overdue, but nonetheless helpful, and this state of confusion is what bothers me I think more than anything else.

On Senator Proxmire's last point, I don't know of anyone who thinks that $300 million is really going to adequately address this problem if this is the way we're going to approach it. Arguably, it wouldn't even take care of the French problem and whether or not it's going to take care of the problem worldwide I think is really an overstatement. The problem is that when we say $300 million, to people out home, that's a lot of money and they imagine that this is one hell of an injection of funds to really deal with this problem. You and I both know it's really a pittance and whether or not we can really expect or raise the expectations of people that we're going to adequately address this problem by doing this or not I think is a very serious and very legitimate question that Senator Proxmire has raised in his opening statement.

So, Mr. Chairman, I thank you just for these general comments. That's all.

Senator **Heinz**. Senator Dodd, thank you very much.

It gives us great pleasure to welcome our two witnesses to the subcommittee. Bill Draper is no stranger to this subcommittee. He has served with great distinction and, I might add, quite a bit of longevity, going on his fifth year as President and Chairman of the Export-Import Bank. David Mulford was with us only last week. He's becoming a frequent visitor to the subcommittee due to his expertise in international monetary affairs. Bill, we welcome you. We're delighted to have you. We hope that this war chest legislation represents something you secretly wanted all along, but you don't have to testify to that. We're just delighted that somebody down there has finally agreed either with you or whatever the case may be.

STATEMENT OF WILLIAM H. DRAPER II, PRESIDENT AND CHAIRMAN, THE EXPORT-IMPORT BANK OF THE UNITED STATES

Mr. **Draper**. Thank you, Mr. Chairman.

I'm pleased to testify this morning in support of Senate bill 1763, which contains the President's proposal for the establishment of a $300 million tied-aid credit fund.

This $300 million in grant money, when combined with regular export credits or private sector financing, can support $1 billion in tied-aid credits and form the basis for extending mixed-credit offers of $2 to $3 billion.

It will be a potent negotiating tool in our efforts to stop certain countries from using aid money to buy export orders.

PROGRAM TO COMBAT PREDATORY TIED-AID CREDIT

In keeping with the President's attack on unfair trade practices by foreign nations, the Export-Import Bank of the United States has just launched a much more aggressive program of combating predatory tied-aid credit. We have notified or are in the process of notifying our OECD partners of our intention to offer highly concessionary financing terms in six transactions supporting potential U.S. exports in excess of $280 million.

These proposed actions are targeted specifically against countries that are hampering the progress of international negotiations in order to eliminate these predatory practices. The French are dominant in the field of tied-aid credit and have been for many years and they are the main target in our approach.

In 1980, the OECD reported mixed-credit offers of around $2.1 billion. Of these, grants accounted for nearly $1.8 billion. By 1984, the OECD was reporting mixed-credit offers of nearly $6.5 billion. France continued to be the leading offender with offers of $1.7 billion. But many other countries expanded their tied-aid credit programs to meet the French competition. For that reason and because some projects are canceled or delayed, the OECD estimates that the actual magnitude of the mixed-credit financing to be significantly less than the offers, ranging around $2 billion in both 1983 and 1984.

The question arises: Is the $300 million grant fund sufficient to allow the United States to match competitive offers of this magnitude? And the answer is emphatically yes. The $300 million being requested by the administration will be used only for the grant portion of a transaction. The balance of the financing needed would be provided by Export-Import Bank under its regular programs on regular terms and conditions or by commercial sources.

Assuming a need for an average grant element of 30 percent in such transactions in order to provide a competitive concessionary offer, the 30 percent would be derived from a new $300 million fund on a grant basis with the remaining 70 percent coming from Eximbank regular credit funds or from private sources.

Thus, the total financing available to support U.S. exports with mixed credits would actually amount to $1 billion. To the extent that smaller grant elements could be used, the leverage provided by the $300 million fund could be even increased. Moreover, as you're aware, in international sales transactions many more bids are made by suppliers than are actually won by them. While the $300 million of grant funds would support $1 billion of mixed-credit activity in actual authorizations, the United States could make $2 to $3 billion of offers of mixed credits in view of the fact that they wouldn't all be drawn down and a very small portion of the total would actually be agreed to and accepted by the foreign buyer.

This program would have a major impact on those countries that we are anxious to get back to the negotiating table. The main reason for my change of heart on the need for this fund has been that until now the negotiations seemed to have been progressing. However, I have changed my mind and feel that we now need some funds to really back up our fight with the French who have stopped negotiating on mixed credits. We want to bring them back to the table.

Meanwhile, the Board of Eximbank felt that the sooner the U.S. Government took action, the sooner we were likely to see progress in the negotiations.

EFFORTS OF EXIMBANK

Therefore early this month the Eximbank approved in excess of a quarter of a billion dollars in highly concessionary financing offers. These offers represent a major escalation of our program to counter mixed-credit offers of other nations. These new offers no longer simply match the competition. In three of the cases we initiated action where we had no evidence of competing mixed credits. These offers were made either in traditional markets of the countries that we're targeting or in a traditional market for American products where one of these countries has been offering mixed credits in effect to steal the business.

In two other cases where tied-aid offers were already on the table, we offered even better financial terms, upping the ante as it were. In the sixth case, Eximbank and the Agency for International Development [AID] will put forth a mixed-credit offer which will match an existing foreign offer.

As you know, Eximbank cannot give grants; that is, make a gift of its funds. We must lend the money with the expectation of having it repaid with interest. We are hoping, however, that the $300 million fund proposed in your bill will be authorized by Congress and in place in time to cover the grant element in these offers. Otherwise, we will have to provide the concessional part of the financing through a combination of regular loans and long-term, very low-interest rate loans that work out to an equivalent grant element. This means we will be able to make good on these offers even if the fund is not enacted, although that would have serious consequences for our own reserves. Therefore, we are recommending strongly that you approve the bill.

Thanks very much, Mr. Chairman.

[The complete prepared statement follows:]

STATEMENT BY
WILLIAM H. DRAPER III
PRESIDENT AND CHAIRMAN
EXPORT-IMPORT BANK OF THE UNITED STATES
BEFORE THE
SUBCOMMITTEE ON INTERNATIONAL FINANCE AND MONETARY POLICY
COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS
UNITED STATES SENATE

OCTOBER 30, 1985

Mr. Chairman and Members of the Committee:

I am pleased to testify in support of S. 1763, which contains the President's proposal for the establishment of a $300 million tied-aid credit fund. This $300 million in grant money, when combined with regular export credits or private sector financing, can support $1 billion in tied-aid credits, and form the basis for extending mixed-credit offers of $2 billion to $3 billion. It will be a potent negotiating tool in our efforts to stop certain countries from using aid money to buy export orders.

In keeping with the President's attack on unfair trade practices by foreign nations, the Export-Import Bank of the United States has just launched a much more aggressive program of combatting predatory tied-aid credits. We have notified or are in the process of notifying our OECD partners of our intention to offer highly concessionary financing terms in six transactions, supporting potential U.S. exports in excess of $280 million. These proposed actions are targeted specifically against countries that are hampering the progress of international negotiations to eliminate these predatory practices.

As you know, this Administration steadfastly opposes the blending of aid funds -- those set aside for humanitarian and developmental purposes -- and export credit funds simply to lower the overall interest rate. The use of developmental funds to win commercial export orders is a distortion of both aid and trade.

The $300 million fund is being proposed because of the lack of sustained progress in restricting this practice in negotiations with certain other members of the Organization for Economic Cooperation and Development. This lack of progress is surprising because most other countries want to continue the significant gains that we have made in reducing the subsidy element in export financing. Our supporters feel, as we do, that export credit agencies should really be in business to encourage commercial financing by offering risk protection in developing countries.

In fact . . . through steady negotiating pressure . . . and Eximbank's own existing program of countering mixed credits . . . we managed to achieve some improvement in the OECD ground rules controlling the use of tied-aid in all types of financing. Mixed credits have been completely banned in large commercial aircraft and nuclear power plant financing. In April we achieved agreement to raise the minimum grant element in mixed credits used for other goods and services from 20 percent to 25 percent. We got the prior notification period for mixed-credits and other forms of tied-aid extended from 10 calendar days to 20 working days . . that's from a week-and-a-half out to a full month. The longer notification period gives us . . . and other countries . . . more time to attempt to get the country to withdraw the offer and agree that no one will offer mixed credits on that project. Or, failing this, we can put forth a competitive offer.

Although the increase in the minimum grant element is a step in the right direction, it doesn't go nearly far enough. We would like to see the minimum grant element increased to 50 percent. That would make these credits so expensive to use that it would virtually eliminate the use of tied-aid credits for commercial purposes. Development funds would be saved for those projects and those countries which really need concessional financing.

Let me say that I think that if international negotiations were conducted on a majority vote basis we would be much closer today to that 50 percent goal. But the fact is we need a consensus agreement. Even to agree to the 25 percent in April, the other members of the Common Market -- which negotiates as a single unit -- had to override French objections. They have made it clear to us that 25 percent is as far as the French are prepared to go. This pretty much leaves the ball in our court.

The French are dominant in the field of tied-aid credit and have been for many years. In 1980 the OECD reported mixed credit offers of around $2.1 billion. Of these France accounted for nearly $1.8 billion.

By 1984, the OECD was reporting mixed credit offers of nearly $6.5 billion. France continued to be the leading offender, with offers of $1.7 billion. But many other countries expanded their tied-aid credit programs to meet the French competition. For example, Italy jumped from offers of $24 million in 1980 to $370 million last year. Belgium made no mixed credit offers either in 1980 or 1981. Last year they offered nearly $200 million in tied-aid financing. Frequently several countries make offers for the same project. For that reason and because some projects are cancelled or delayed, the OECD estimates the actual magnitude of mixed credit financing to be somewhat less than the offers . . . ranging around $2 billion in each of 1983 and 1984.

The question arises: Is the $300 million grant fund sufficient to allow the U.S. to match competitive offers of this magnitude? The answer is emphatically: YES!

The $300 million being requested by the Administration would be used only for the grant portion of a transaction. The balance of the financing needed would be provided by Eximbank under its regular programs and on regular terms and conditions, or by commercial sources.

Assuming a need for an average grant element of 30% in such transactions in order to provide a competitive concessionary offer, the 30% would be derived from the new $300 million fund on a grant basis with the remaining 70% coming from Eximbank's regular direct credit funds or from private market sources. Thus, the total financing available to support U.S. exports with mixed credit offers would actually amount to $1 billion. To the extent that a smaller grant element could be used, the leverage provided by the $300 million fund could be increased.

Moreover, as you are aware, in international sales transactions many more bids are made by suppliers than are actually won by them. Thus, many of the financing offers by an official export credit agency will not be converted into final commitments. In FY 1985, for example, Eximbank issued preliminary commitments in excess of $5 billion, of which probably $1 to $1.5 billion will eventually be converted into final commitments when the U.S. suppliers win the orders. Thus, while the $300 million of grant funds would support $1 billion of mixed credit activity, the U.S. could make $2 billion to $3 billion of mixed credit offers. This program would have a major impact on those countries we are anxious to get back to the negotiating table.

This is why we believe that the $300 million appropriation we are supporting will be fully adequate for a program that is aimed specifically at getting the negotiations to eliminate tied-aid credits back on track.

Because the purpose of this fund is to negotiate an end to tied-aid credit abuses, and because we do not want to institutionalize mixed credits, we support placing this fund under the direction of the Secretary of the Treasury. This separates it from the United States' normal export credit programs.

However, the Board of Eximbank felt that the sooner the U.S. Government took action, the sooner we were likely to see progress in the negotiations.

Earlier this month Eximbank approved in excess of a quarter of a billion dollars in highly concessionary financing offers. These offers represent a major escalation of our program to counter mixed credit offers of other nations. These new offers no longer simply match the competition.

In three of the cases we initiated action where we had no evidence of competing mixed credit credits. These offers were made either in traditional markets of the countries we are targeting, or in a traditional market for American products where one of these countries has been offering mixed credits to steal the business.

In two other cases, where tied-aid offers were already on the table, we offered even better financial terms. . . upping the ante, as it were. In the sixth case, Eximbank and the Agency for International Development (AID) will put forth a mixed-credit offer which will match an existing foreign offer.

As you know, Eximbank cannot give grants . . . that is make a gift of its funds. We must lend the money . . . with the expectation of having it repaid with interest. We are hoping, however, that the $300 million fund proposed in your bill will be authorized by Congress and in place in time to cover the grant element in these offers. Otherwise, we will have to provide the concessional part of the financing through a combination of a regular loan and a long-term, very low-interest-rate loan, that works out to an equivalent grant element. This means we would be able to make good on these offers even if the fund is not enacted--although that would have serious consequences for our own reserves.

Eximbank is currently taking the necessary steps to implement these transactions. In keeping with the guidelines agreed to by 22 OECD nations, Eximbank is providing advance information about these offers to the other participating nations. Eximbank has already received the unanimous backing of the National Advisory Council on International Monetary and Financial Policies for these transactions.

Thank you very much. I will be pleased to respond to your questions.

Senator HEINZ. Thank you very much, Mr. Draper.
Mr. Mulford.

STATEMENT OF DAVID C. MULFORD, ASSISTANT SECRETARY OF THE TREASURY FOR INTERNATIONAL AFFAIRS

Mr. MULFORD. Mr. Chairman, the bill we discuss today is a major offensive in the President's campaign against foreign unfair trade practices. The war chest we have proposed will be aggressive. It will provide strong and necessary leverage on recalcitrant governments to join the great majority of our industrial nation trading partners willing to negotiate an end to the misuse of tied-aid credits for predatory commercial purposes.

Despite the reduction of export credit subsidies that we have achieved by negotiation over the past 5 years, tied-aid credits which use aid alone or in combination with normal export credit financing have become a serious problem for U.S. exporters.

TIED-AID CREDITS DOUBLED SINCE 1982

The number of notified tied-aid credits with low-grant elements has doubled since 1982 and the OECD predicts that the amount of such offers will increase to over $6 billion in 1985.

One country, France, leads other governments into this pernicious commercial intervention. Although many others have adopted programs to match France, French tied-aid credits still account for one-third of all tied-aid credits with grant elements below 50 percent and more than one-half of all tied-aid credits with grant elements below 35 percent.

These credits, which we consider an unfair predatory trade practice, have caused the United States to lose key export sales and have diverted funds away from development assistance. Their continued use threatens to undermine the arrangement and increase international trade tensions.

The clearest, simplest, and most direct solution to the problem is to raise the minimum permissible grant element of tied-aid credits from the current 25 to 50 percent, a proposal presented by the United States to the OECD Export Credits Group as long ago as December 1983. This would make the cost of such credits so high that no country's aid budget could sustain such a diversion from real economic development assistance.

Unfortunately, our negotiations have now reached an impasse. While most industrialized countries can accept greater discipline over tied-aid credits, a few countries—notably France, supported by Italy—are now blocking negotiating progress.

We need a new initiative to break this logjam. The Trade Development and Enhancement Act of 1983 which created a tied-aid credit matching program has not given us sufficient leverage. Selective matching by the United States and more aggressive matching by other countries have not deterred France from continuing to offer predatory tied-aid credits, nor have they encouraged France or Italy to negotiate.

To combat these unfair trade practices and break the impasse we face, the President has announced the following new initiative.

PRESIDENT'S NEW INITIATIVES

First, the Secretary of the Treasury has submitted legislation to authorize appropriations for a $300 million facility for outright grants to mix with Eximbank credits or private sector loans.

Second, the Export-Import Bank will begin immediately to draw on its capital and reserves to offer tied-aid credits as a temporary step until the proposed legislation is enacted.

Third, the Secretary of the Treasury who has the lead in the negotiations has been directed to control the use of these funds with the advice of the National Advisory Council on International Monetary and Financial Policy on which both the Export-Import Bank and AID are represented.

Since the initiative is neither for export promotion nor economic development assistance, the Export-Import Bank and the Agency for International Development should not be asked to administer it.

Fourth, the war chest should be dismantled when our negotiating objectives are met.

We have designed the administration's proposal to increase our negotiating power so that we have the clout we need at the table, to avoid an open-ended entitlement program and to keep the budgetary impact as low as possible. A war chest of $300 million would support up to $1 billion of exports and as much as twice that in aggressive tied-aid credit offers.

It would be targeted at those sectors and markets of particular importance to countries impeding progress in negotiations.

The program should be aggressive and preemptive, not a program of merely matching tied-aid credits. Matching others' offers does not work. If we do only that, we will perpetuate rather than eliminate the practice. We will throw good money after bad.

We seek the authority to go on the offensive, to initiate tied-aid credits and to outbid selected foreign tied-aid credit offers in deals which are of particular importance to countries blocking negotiations.

BILL HAS A SUNSET PROVISION

The proposed bill defines its purposes clearly. It will give us the ammunition we need for a hard fight, but it will not establish a permanent subsidy and entitlement program. The bill has a sunset provision and the President would have the discretion to end the fund earlier if negotiating victory has been achieved.

The impact on budget authority would be limited by authorizing the use of grants rather than low-interest loans which would require higher budget authority. We have tried to ensure that the fund does not taint the objectives of Eximbank and AID or divert funds from other important bilateral and multilateral assistance programs.

Since the President's initiative, Exim has already notified the OECD countries of new offers totaling more than a quarter of a billion dollars in tied-aid credits. These proposed offers are aggressively targeted against countries impeding negotiations. Although Eximbank will issue preliminary commitments for these transactions under its own authority, it hopes that the war chest is enacted to cover the grant element in Eximbank's offers.

In conclusion, Mr. Chairman, let me say that we, the negotiators who have gone through so many frustrating years, believe in this bill and believe it will give us the commanding strength we need.

To implement the President's attack on unfair trade practices we seek speedy enactment of our war chest initiative as soon as possible. Thank you very much.

[The complete prepared statement follows:]

FOR IMMEDIATE RELEASE
EXPECTED AT 9:30 A.M.
OCTOBER 30, 1985

STATEMENT OF THE HONORABLE DAVID C. MULFORD ASSISTANT SECRETARY OF THE TREASURY FOR INTERNATIONAL AFFAIRS BEFORE THE SUBCOMMITTEE ON INTERNATIONAL FINANCE AND MONETARY POLICY COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS UNITED STATES SENATE

We are grateful to the subcommittee and to you, Mr. Chairman, for permitting us to present the Administration's initiative for a so-called War Chest to combat tied aid credits. It is a major offensive in the President's campaign against foreign unfair trade practices. The legislation is designed to foster free and fair trade -- to establish a balanced competitive environment where U.S. businesses can compete fairly.

Our initiative is not designed to create a new subsidy program to promote exports. This legislation purposely avoids setting up an unfair trade practice of our own to mimic the unfair trade practices of other countries. On the contrary, the War Chest will provide the necessary leverage on governments to join the great majority of our industrial nation trading partners and negotiate an end to the misuse of tied or partially untied aid credits for predatory commercial purposes.

The Tied Aid Credit Problem

We should recognize at the outset that most of our negotiating objectives have been achieved in the field of export credits. After several years of negotiations, the 22 OECD nations revised the Arrangement on Export Credits in November 1983 to reduce greatly and in many instances eliminate export credit subsidies.

In the last year, we further agreed to essentially eliminate financial subsidies for nuclear power projects and large commercial aircraft. Moreover, participating countries, including France, agreed to prohibit the use of any tied aid credits whatsoever in these two important sectors. These agreements by OECD member governments are among the most significant recent advances in free trade.

With the reduction of export credit subsidies, however, tied aid credits, which use aid alone or in combination with normal export credit financing, have become a more important problem for U.S. exporters. The scope of the problem is revealed by the following:

-- A recent OECD study, prepared at the behest of OECD Ministers, concluded that tied aid credits with low levels of concessionality distort aid and trade more than credits with high grant elements.

-- The number of notified tied aid credits with low grant elements has doubled since 1982.

-- The OECD predicts that the amount of such offers will increase to over $6.0 billion in 1985.

-- Although many other countries have adopted programs to match France, French tied aid credits still account for one-third of all tied aid credits with grant elements below 50 percent and more than one-half of all tied aid credits with grant elements below 35 percent.

These credits, when used for commercial purposes in the guise of foreign aid, represent an unfair trade practice, have caused the United States to lose key export sales, and have diverted funds away from development assistance. Thus, the continued use of commercially motivated tied aid credits threatens to undermine the Arrangement and increase international trade tensions.

The Negotiating Impasse

The clearest, simplest, and most direct solution to the problem of commercially motivated tied aid credits is to raise the minimum permissible grant element from the current 25 percent to 50 percent, a proposal presented by the United States to the OECD Export Credits Group in December 1983. While it would not completely eliminate the problem, it would make the cost of such credits so high that no country's aid budget could sustain such a diversion from real economic development assistance.

Increasing the minimum permissible grant element to 50 percent is not so shocking as it may appear. The most recent OECD Development Assistance Committee statistics show that the average grant element of all aid provided by these countries was almost 90 percent in recent years. If one excludes grants, the average grant element of loans ranged between 56 and 59 percent.

To date, negotiations on tied aid credits have recorded modest successes. In 1982, OECD governments agreed to ban tied aid credits with a grant element below 20 percent. In April 1985, OECD Ministers improved discipline by raising the minimum permissible grant element from 20 to 25 percent and improved transparency through new prior notification and consultation procedures. The Ministers also directed OECD committees to develop new measures to further improve discipline and transparency. In July the Export Credits Group reached agreement on defining the tied aid credits which are causing the problem.

The U.S. Government welcomes these interim steps but, unfortunately, we have now reached an impasse. While most industrialized countries are prepared to accept greater discipline over tied aid credits, a few countries, notably France, supported by Italy, are now blocking negotiating progress. At the September 16-20 meeting of the OECD we were unable to make progress primarily because the European Community -- even with the Ministerial mandate -- had no flexibility to increase the minimum grant element or to explore alternative solutions.

We need a new initiative to break this logjam. The Trade and Development Enhancement Act of 1983, which created a tied aid credit matching program, has not given us sufficient leverage. Eximbank's ability to match has been limited since it must draw down its dwindling capital and reserves for this purpose. USAID action has been limited by the country allocation process and the requirement that its activities be for legitimate development purposes. The U.S. Government has thus offered only 12 tied aid credits since the bill was enacted. As a result, selective matching by the United States and more aggressive matching by other countries has not deterred France from continuing to offer predatory tied aid credits, nor has it encouraged France to negotiate.

The War Chest Initiative

To combat these unfair trade practices, the President has announced the following new initiative:

-- The Secretary of the Treasury has submitted legislation to authorize appropriations for a $300 million facility for grants to mix with Eximbank credits or private sector loans. The purpose of this program of tied aid grants is to buttress the Administration's negotiating efforts to eliminate predatory tied aid credits by other countries.

-- The Export-Import Bank will begin immediately to draw on its capital and reserves to offer tied aid credits as a temporary step until the proposed legislation is enacted.

-- The Secretary of the Treasury, who has the lead in the negotiations, has been directed to control the use of these funds with the advice of the National Advisory Council on International Monetary and Financial Policy, on which both the Export-Import Bank and AID are represented. Since the initiative is neither for export promotion nor economic development assistance, the Export-Import Bank and the Agency for International Development should not be asked to administer it.

-- The War Chest should be dismantled when sufficient negotiating progress has been achieved to restrict commercial use of tied aid credits with low grant elements.

The Administration's proposal is designed (1) to maximize negotiating leverage; (2) to avoid an open-ended entitlement program; and (3) to minimize the budgetary impact.

Leverage: To maximize negotiating leverage, we seek a War Chest of $300 million which would support up to $1 billion of exports. The War Chest would be targeted at those sectors and markets of particular importance to countries impeding negotiations.

The program should be aggressive and preemptive, not a program of merely matching tied aid credits. Other countries have matching programs which have not caused the initiators to agree to further discipline. Initiators retain the commercial advantage of being sought out first by the customer. If we only matched foreign offers, we would perpetuate rather than eliminate the practice, throwing good money after bad.

Consequently, we are proposing an offensive tied aid credit program. In particular, we seek the authority to initiate tied aid credits and if necessary to outbid selected foreign tied aid credit offers in deals which are of particular importance to countries blocking negotiations.

Cautionary Provisions: The proposed bill contains a clearly defined purpose which ties the War Chest to U.S. negotiating objectives rather than establishing a permanent subsidy and entitlement program. Treasury would control the fund. In operating the fund and selecting transactions to be targeted, however, we would rely heavily on the advice of the agencies in the National Advisory Council. In addition to a sunset provision of September 30, 1987, the President would have the discretion to end the fund earlier if sufficient negotiating progress has been achieved.

Budgetary Impact: The budgetary impact would be limited by authorizing the use of grants rather than low interest loans (which would require higher appropriations). By appropriating the fund directly to the Department of the Treasury, we have tried to ensure that the fund does not taint the objectives of Eximbank and USAID nor divert funds from other important bilateral and multilateral assistance programs.

Since the President's initiative was announced, Eximbank is in the process of notifying OECD countries of new offers totaling more than a quarter of a billion dollars in tied aid credits. These proposed offers are aggressively targeted against countries impeding negotiations. Since these cases involve either initiation or overmatching, however, they could not be authorized under the Trade and Development Enhancement Act of 1983, but instead, under the Bank's residual Charter authority. Although Eximbank will issue preliminary commitments for these transactions under its own authority, it anticipates that the actual funding would combine regular Eximbank credits and grant funds from the War Chest, if enacted and funded. Otherwise, the concessionary portion would come from a low-interest-rate loan, which would be costly to Eximbank's capital and reserves.

Conclusion

Tied aid credits and partially untied aid credits with low levels of concessionality are increasingly undermining the international system of trade and finance. Our War Chest initiative will greatly enhance our leverage to negotiate restrictions on the commercial uses of tied aid or partially untied aid credits. In order to implement the President's attack on unfair trade practices, we seek speedy enactment of our War Chest initiative.

This legislation purposely avoids setting up an unfair trade practice to match unfair trade practices of other countries. Such a course would ultimately injure all parties. Our effort is to decrease, not increase, international tensions in the field of trade finance. Our responsibilities lie in leveling the playing field for free and fair trade.

Senator Heinz. Mr. Mulford, thank you very much.

Just so that we all understand the way your legislation works, would the initial decision or request for support through this fund come from an individual exporter through the Eximbank through normal channels, Mr. Draper or Mr. Mulford?

PROCEDURE FOR USE OF THE CREDIT FUND

Mr. Draper. That would be the normal procedure, Mr. Chairman, that there be an application made to the Eximbank which would involve a request for mixed credits. Then we in coordination with the Treasury, would decide that we would make our normal credit offer, tied in with some of the grant funds that the Treasury would control.

Senator Heinz. And the Exim's role here would be what? To screen these and to recommend certain of them to Treasury for use?

Mr. Draper. It would be very much the same as it is today.

Senator Heinz. Is that the way you conceive this working too?

Mr. Mulford. Yes. I think it is very important to understand that the Treasury is not going to insert itself into the regular business flow of export credit applications.

Senator Heinz. So we are not going to create any dual bureaucracy here.

Mr. Mulford. We're not creating a dual bureaucracy. The Treasury's sole function, as Bill has said, when proposals have been made, is to try to make a judgment as to whether that particular piece of business suits the ends that the war chest has been created for, and therefore authorize the war chest be used for the grant portion.

Senator Heinz. Yes. Now, first, I want particularly to congratulate you Mr. Mulford on a very strong statement that I hope all our trading competitors read. It is every bit as strong, if not stronger, than Tim McNamar's famous deep pocket speech. Somehow, this has a greater ring of authenticity to it, even than Mr. McNamar's statement, possibly because it is backed up by legislation. But it seems to me that one issue that might—or one question that might cause some lessening of perception that we really mean it, is the fact that this is 2-year legislation. It sunsets in 2 years. And these mixed-credit practices have been growing for far more than 2 years. And I would like to know what your defense of a 2-year sunset is, when our foreign competitors may say, all we have to do is wait them out, you know, $300 million over 2 years. Well, we can get around that. We don't have to worry.

Mr. Mulford. Well, let me just comment on your observation. I have not been at the Treasury as long as Bill Draper has been at the Eximbank, but I have been directly involved in these negotiations. I can feel the frustration that we've been up against, and Secretary Baker has himself had some experience of this at the last OECD meeting.

I am tired of arriving in Europe for negotiations with the press saying all we have is wet ammunition, and I feel very strongly that we must have a well-thought-out strategy to attack this problem.

By the same token, we do not want to create something which gets out of hand, becomes an entitlement program, and may in the end be judged, for the reasons you've said, to be inadequate. Therefore, I think it is very helpful to have a sunset provision which forces a review, which would either retire the program, because it's been successful, or might take some different tack, depending upon what the situation is at that time.

Senator **Heinz**. Well, let me stop you at that point, because I think most members of the committee, including myself, would agree with you that we don't want this to be a perpetual entitlement. The goal is exactly as you state it, which is, how do we get rid of mixed-credit financing, not how do we perpetuate it. I think you have been very clear, and I don't know of anybody on this committee who disagrees with your statement of the goal, either of your statements.

But what perhaps it might help for you to say is, we'll keep this on a relatively short tether, but if, within 2 years, it hasn't achieved the goal, we're going to be back and perhaps even ask for more authority than we're asking for these 2 years, until we achieve the goal, which is, getting rid of mixed-credit financing.

Mr. **Mulford**. Well, we are intent to accomplish our objective, and the review at that time will have to take into account what's been achieved. In my view, if we have not achieved enough, then we must come up with something bigger or better or different that continues until we have accomplished this objective.

Senator **Heinz**. I am glad you made that point. I think it is very important that our trading competitors hear it, and I am very pleased, Mr. Mulford, you put that so clearly on the record. I think it is terribly important.

TARGETING ON THE WORST OFFENDERS

Now one other element of the legislation that I have been kind of puzzling over, is the targeting on the worst offenders. I am not opposed to that. I think that is a very good idea. You have mentioned France and Italy, and I suppose you might add Belgium and one or two other countries to that list. They, I gather, have been blocking the efforts to negotiate a conclusion—successful conclusion here. I suspect that is not an unreasonable strategy, but it is still a unilateral strategy. It is still the United States pushing France, Italy, and Belgium to come to the negotiating table. There is an alternative strategy that is not inconsistent, which would be to expand our offensive tactics to other countries which claim that they are on our side but are still engaging in massive mixed-credit competition. One of those countries, for example, is Japan.

The mixed-credit competition is particularly intense in Pacific rim countries. People are trying to sell these large projects, construction projects, typically, to countries like the People's Republic of China, Malaysia, Singapore, I should say, Indonesia, and those relatively stable and fairly well-to-do, growth-oriented Pacific rim countries. And there sits, of course, Japan, and some of us get a little suspicious about the Japanese, who say, "Yes, we're willing to," because we've had so much talk from Japan and so little in the way of real performance, when it comes to the last six trade agreements we have had.

While I am not saying this to single out Japan, because there are other countries that are also operating mixed credits, what is your thinking, either of you on whether or not we should, in fact, consider, rather than pursuing a unilateral strategy, get countries that seem to be at least somewhat happy with their ability to compete using mixed credits, more strongly on our side, urging the French and others, and perhaps even forcing the French and others through the necessity of competing even more aggressively against them, to come around to the goals that you've just set forth.

Mr. **Draper**. Well, in the negotiations, we have found that Japan has not been the one that has taken the hard position that they won't negotiate on this point. They're happy to abide by whatever agrement we and the Europeans come up with, in a sense. I was in Japan just very recently and talked with a number of the leaders there, and I feel that we will get their support, if we can get France to agree.

Senator **Heinz**. Well, that is exactly—I think you've described the Japanese position very accurately, which is, we'll go along. But my point is, if you are not part of the solution, aren't you really part of the problem? Right now, Japan is saying—is being passive. They are not part of the solution. They say they are willing at some future time to be part of the solution, but if they're not actively on our side now, aren't they really part of the problem?

Mr. **Draper**. Yes; in effect, they have been combating these against the French. If we take the thesis that the French are causing the problem, because I think the majority of those countries that are in the OECD would agree with us to raise the grant element allowable up to maybe not 50 percent but something closer to that than 25, they would come along. I think the Japanese are helping fight the French, in the sense that they are meeting some of those mixed-credit programs themselves.

CASE IN THAILAND

I can also mention a case down in Thailand, where there is a big fertilizer plant to be built, and Japan was mixed in with France. It was a large consortium, and they were all giving mixed-credit offers. Well, the point is, therefore, France didn't have any better opportunity of getting that on its own through price performance and service than it did before the mixed-credit program began.

In this kind of a situation the other countries are fairly well neutralizing France.

As I pointed out in the testimony, a lot of other countries increased their mixed-credit activity, to the point where France actually in the last 4 years has left theirs at roughly $1¾ billion, but the other countries have come up to try to match them.

Therefore, I think we can say that Japan is part of the solution of at least neutralizing the advantage that France once had from these mixed credits. Now all we need to do is get a good negotiation going that brings the majority view home, and I don't think Japan will necessarily lead in many negotiations in a positive way, but they will not block us. I think that's the key point, and once we get the agreement with France, I suspect we will have it all put to bed, and if we start attacking Japan, we are going to waste these resources.

I certainly agree Japan is a more difficult competitor for all of our exporters than is France. But this is one source of protectionism or unfair trade practice, and we're just trying to beat down this one source. There are other ways of trying to fight some of the others——

Senator **Heinz**. I know Mr. Mulford wants to respond. Let me just say that what you said is, that Japan is engaging in mixed credits. Japan is saying if the United States can get France and a couple of other countries that are blocking an arrangement, which is a consensus arrangement, of course, which means that one person can blackball a solution, one participant can blackball a solution, that they will go along. And notwithstanding, Bill, your protestations that they are somehow part of the solution, the plain facts are that they seem to be, based on the facts, they are, in fact, engaging in mixed credits, and they are prima facie part of the problem until they start joining us in urging the French and others to stop the mixed-credit competition.

Now maybe Mr. Mulford would like to respond.

Mr. **Mulford**. I'd like to just add to what Bill has said. I agree with what he has said, but I think you made a point that is a rather subtle point in terms of strategy; if you just too obvious target France, can you really solve the problem, because you have Japan and others. I would like to say that the strategy is based on more than just targeting France. It is based on the important point that in the European Community [EC], before you can hope to win against one recalcitrant member, you must successfully isolate that member.

France has been supported by Italy, and therefore, Italy cannot escape from this particular program. We will be using it against Italy in the hope that we are successful in the longer run in isolating France, so that France's stand within the EC becomes less secure.

If we fail to do that, then other EC members, and this is already evidenced so far, will begin to return to this practice and increase it. And this is in nobody's interest, including their own.

On Japan, it is true that Japan is part of the solution. It is also true that we believe that they will go along——

Senator **Heinz**. Part of the solution or part of the problem?

Mr. **Mulford**. Part of the solution. They will go along with the resolution of the issue, if we can accomplish it with the EC. But they are also part of the problem, as you point out. We are very much aware of that, and if the Japanese don't take a—in my opinion, at least—a more visible position on this issue and are not cooperative, we will go after them as well.

Mr. **Draper**. Incidentally, I should say that there are several examples where we, on our own, without any of this special fund, have given concessionary financing to meet the present value of an offer made by the Japanese to buy business in an obviously unfair way. There was one case where they—in Algeria—went out after a telecommunications case. They never gave aid to Algeria, to my knowledge prior to that, except perhaps years ago, and all of a sudden they made a major OECF loan on very concessionary terms, which is the aid organization that Japan uses, and we matched them.

So we are not at all saying that we won't do a similar case in the future, but we don't want to make that a major use of the funding that we get from you. We might go on and do it just on our own as we have in the past.

Senator HEINZ. My time has expired, but I just want to make this one observation.

ARRANGEMENT IN 1983

It was my good fortune to visit the OECD negotiations in Paris with our negotiators there in October 1983, as I recollect, just 2 years ago. And I wish I could say that my visitation in Paris was something of the reason for the fact that while I was there an arrangement, in fact, was agreed to. I fear that it was going to happen whether or not I was there. But the point is that that was just 2 years ago. The Japanese and the other developed countries agreed to the arrangement. The arrangement was—the spirit of the arrangement was clearly to stop subsidized competition among the developed countries with, depending on the categories, other countries.

Irrespective of which country it is, whether it is the French or the Japanese or Italians, it is clear to me that here we are, only 2 years later, with a very critical situation, where you almost end up having to believe that people agreed to the arrangement with their fingers crossed, saying, you know, I really didn't mean we were going to be good, because we have this other little secret weapon we intend to use. And you say, well, Senator, how can you be so cynical? And the answer is, I haven't heard anybody except us protest, protest the use of mixed credits.

If the Japanese or some of the other people think it is so bad, why haven't they been saying it's bad? Where have they been for the last 2 years?

That's more of a rhetorical question, and maybe you could—particularly, for Senator Gorton's benefit, I would like to get rhetorical at this point, because I'm on his time. So if you want to respond to that later, you can, but let me recognize Senator Gorton.

Senator GORTON. Mr. Chairman, my excellent and dedicated staff prepared an innocuous opening statement for me which I will not ask be included in the record.

OPENING REMARKS OF SENATOR GORTON

Senator GORTON. As you know, Mr. Chairman, I have not been a Senator or a member of this body for an extended period of time. You worked diligently to get me here in the first place and are now working even more diligently, for reasons I can't entirely fathom, to see to it that I stay. I have been here long enough, however, I think, to identify four switches on the part of the current administration with respect to this type of export promotion.

When I arrived, the administration started out in an attempt to dismantle the Export-Import Bank significantly. Mr. Draper was in the awkward position, when he was appointed, of having to operate under circumstances in which he was no great enthusiast for the organization which he headed. We had some rather sharp exchanges over that, though I was greatly in sympathy with the position in which he was put. I think, in fact, he may have helped considerably in changing the views of the administration, after a couple of years, to the point at which, roughly in 1983, it was a pretty strong backer of the Export-Import Bank and a number of its programs.

Then this year, we were faced with the negative—indeed, counterproductive—proposition that we were to abolish the direct loan authority of the Export-Import Bank. Now we have this war chest, this sorry little orphan foisted on us, because the administration is afraid that Congress might allocate much more than $300 million for vaguely defined efforts, to boost exports. I gather from what I read, however, if we should give its administration to an organization interested in exports, like the Export-Import Bank or the Department of Commerce rather than the Department of Treasury, the administration will pick up its marbles and go home, saying that it does not want the appropriation at all.

You brought out the fact that a major competitor—perhaps our toughest competitor—which uses mixed credits, is to be excluded from the set of proposals before us today.

I find it something of a paradox that we are here 6 months after the administration wanted to cut several billions of dollars out of a program which worked in export promotion, to come up with something that will last perhaps 2 years, Mr. Chairman? Doesn't this bill have a sunset at the end of 1987?

I can't imagine that any one of our foreign competitors is going to take this seriously in its present form. As I say, I think it is a bit of an inoculation.

Perhaps I can ask the two witnesses here, if the administration, because it recognizes the use of mixed credits to be a serious problem, is now backing an appropriation for the direct loan authority of the Export-Import Bank of the $1 billion—an appropriation which we finally got through in the budgetary version? Can either of you answer that question for me?

EXIMBANK PROVED IT WAS WORTHY TO EXIST

Mr. **Draper**. Well, Senator, in defense of the administration, I would say that when we first came into office, the major objective was, of course, to reduce the size of the budget deficit, and everything was suspect, all expenditures in the Federal Government were suspect. We had to prove our way, prove that we at the Eximbank deserved the funding that you gave us and that the administration asked for later on. I think that was a good exercise. We went through it, and we proved that it's a very productive organization, that is highly professional in the way it is managed, and that it does a very effective job for American exporters in helping them finance their exports and in building jobs and protecting jobs for U.S. industry.

Now when you talk about last year asking to do away with the direct lending program, that was a part of an overall plan to get the Government out of lending of all types, whether it be to farmers, or to householders, or small business, or big business, or loans made by the Eximbank. But we provided what was considered to be a perfectly good alternative. Now you may not consider it to be a good alternative, but at least we were not doing away with the Bank or doing away with the job that direct credit had been doing.

I think we've talked about the Interest-Matching Program, the I-Match Program, sufficiently to have it aired, and I think it's likely that we will be happy to support the $1.8 billion or whatever does come out of the appropriations or the Congress in whatever form it comes out. We'll be happy to do it. I can just say that we need $1.8 billion to do the job this year, and in either form, we'd be happy at the Eximbank to have it. It will work under an I-Match Program, and I feel that the administration is going to be able to support whatever you come out with, as long as it helps us do the job.

I think that answers the question, doesn't it?

Senator GORTON. I must say I am delighted—Mr. Draper, I am delighted to hear that at least one spokesman for the administration is willing to support that whole amount. I haven't discerned any enthusiasm or even support for that proposal at this point.

How much of Eximbank's lending authority is going to end up being used in conjunction with this $300 million war chest if it passes in the form in which it has been introduced?

Mr. DRAPER. Well, we're not sure. It all depends on the success of the negotiations. That is a hard question to answer. We, of course, will have the added support of the $300 million of aid, because that, we would expect, would be on top of the $1.8 billion, and it would be a separate appropriation.

Senator GORTON. Do you expect it to be on top of the $1.8 billion?

Mr. DRAPER. Yes. I have got to be clear here. The $1.8 billion—which is not what the administration is asking for, of course, because the administration is asking for the I-Match Program, but looks to me like you are going to give us the $1.8 billion in direct credit—that is the amount of money that we will need in the current fiscal year in order to do the job that we have ordinarily done under our normal programs to meet foreign competition and help our exporters get those sales.

The $300 million is an authorization for an appropriation. That $1.8 billion is not an appropriation, as we all know. The $300 million would be an appropriation, completely aside from the $1.8 billion, and it would be used in whatever cases we in the Treasury deem appropriate. But we don't want to confuse those two numbers and say that the $300 million should come off of the $1.8 billion.

Senator GORTON. Mr. Mulford, next January, are you and the administration going to trot back in here with another recommendation that we abolish direct loan authority entirely?

Mr. MULFORD. Well, let me try to answer the question of the changing positions that you have raised. The important point is that, in the case of the mixed-credit problem, we have been in a period of negotiation, in which there has been some progress. This has been logged. I can describe it, if you wish. But it hasn't been enough. We recognize that. The practice has not disappeared. On the contrary, it is growing. So we have had to adjust our thinking to try to take account of the situation. I think that should be commended. We have, in this case, come up with a program which we think, in the circumstances, will meet the problem.

Now you point out that the program only lasts 2 years, and suggest it does not have very much money. But I think it is important to bear in mind that this amount of money will support a very considerable amount of bidding, substantially in excess of the $1 billion of exports that actually ultimately would be financed. In terms of competition, it has what I would call an irritant multiplier effect. And I think that has some value.

SITUATIONS THAT COULD CAUSE CHANGES

Second, I think that a 2-year period is adequate. Companies report earnings on a quarterly basis. Foreign companies are not going to be immune to the loss of business. They will feel the impact of this program. They will record it politically in their systems. Governments must be sensitive in democracies to changing opinions. There are elections from time to time. France has one coming in March. I have no doubt that if there is a constant loss of business between now and then, there will be some unhappy people who will record their views in France.

Other things are happening which could change the situation. Interest rates in France are down, for example, for the first time in many years. If the French Government would like to transfer a greater portion of this business to the private sector, it has acknowledged that times are more propitious now than they have been in the past, because commercial interest rates are lower. This could be done with less need to apologize for it on the part of the French Government.

In a number of other areas our relationship with the French Government has improved, and I see no reason why they shouldn't be sensitive and be willing to take a constructive attitude. Certainly, we here have been changed in our attitudes in recent times by some of the pressures we've seen such as rising protectionism and other things. That has taken place in a relatively short space of time as well.

So, I would not underestimate the potential for this program.

Senator **Gorton**. Mr. Chairman, my time is up. I suppose we should be grateful for small favors, though my gratitude has certain limitations. I think we are a day late and a dollar short, but it is better than nothing.

Senator **Heinz**. That is a strong endorsement. [Laughter.]

Mr. **Draper**. I might say, Mr. Chairman, that the numbers that France has been offering, the $1¾ billion that they have been offering sort of on a steady basis, don't get all that business. Those are their offers. We will be able to do more than match just France with those numbers, with this $300 million, because we won't get all the business, and I think that point has to be clear that we can match every single mixed-credit offer and go below them, if we desire to.

Senator **Heinz**. I want to ask Mr. Mulford some questions about our negotiating objectives and what their realization of them might mean. Now correct me if I am wrong, but right now, we have succeeded in negotiating a minimum aid component of a mixed-credit deal to be 25 percent; is that correct?

Mr. **MULFORD.** That's correct; yes.

Senator **HEINZ.** Now as I understand the way these transactions are structured, let's say someone decides to sell a powerplant to the People's Republic of China for $1 billion, and you know, you've got a number of components of it. You've got water empoundment as part of it. You've got the construction of generators as a part of it. You've got transmission stations as a part of it. Let's, for simplicity's sake, say it's a $900 million project. It's got three equal parts.

Now when we say that we want a 50-percent minimum requirement on aid in mixed credits, it doesn't mean, of course, that that 50 percent would be 50 percent of $900 million. One might conclude that it is 50 percent of whatever the covered portion of the $900 million transaction is. Let's say, Eximbank would cover 60 percent of the $900 million transaction, which would be $540 million.

Would the 50-percent threshold goal that you have set mean that there couldn't be any mixed credits on this particular powerplant, unless there was at least 270 million dollars' worth of aid, tied aid here? Is that what we are talking about, or could people find a way around it?

Who wants to answer that?

Mr. **MULFORD.** That is a very technical question.

Mr. **DRAPER.** I would say this, Mr. Chairman. The basic concept would be that if you are going to mix credit that comes from, let's say, an Export-Import Bank and aid that comes from an AID organization, the amount that comes from the Export-Import Bank should be equal to the AID portion or rather the AID portion should be equal to or less than the Export-Import Bank portion. If the aid is greater than 50 percent of the total, then we consider it a legitimate AID development project. It'll be very expensive if they are just trying to buy the jobs that are involved in the project.

And that is the whole system. So you're absolutely right. You said $450 million would be half of the $900 million. What we usually do, let me say, is to offer three options—a guarantee for 85 percent, or a loan for 65 percent, or a loan for 75 percent if the exporter will put up 10 percent at the same rate in order to bring the financing up to 85 percent.

Now let's just take a typical case. If our loan amounted to, say, $350 million—for just a number—then we could take out of this fund up to another $350 million—we can take out $350 million, if we have it in there or the grant element we wanted that, in order to provide a mixed credit. A higher grant element than 50 percent becomes a legitimate AID project. It is a very technical question.

So we wouldn't go above 50 percent. But that's what somebody else would have to do, if we were to get this agreement in place.

Senator **HEINZ.** I think you've answered a question I didn't intend to ask. [Laughter.]

The fault may be mine. What I'm getting at is not what you would do, but how we will measure what our trading competitors are doing, if we actually get an agreement with them. Now Mr. Mulford stated that our goal was to raise the minimum AID component of a mixed-credit deal to 50 percent. I want to know how we are going to measure that 50 percent? Is it 50 percent of the——

Mr. **Draper**. First of all, it's confused further by the fact that they, in the OECD, consider anything below—they consider normal financing to be 10 percent. That just happens to be their system. So that they calculate the grant element based on that 10 percent. It is used as a discount rate. The market rate, therefore, is assumed to be 10 percent. If you make a portion of the loan at 5 percent, the grant element would be calculated on the 5-percent portion and that would be discounted at 10 percent to determine the grant element. It is a little technical to explain, but that is the way it works.

Senator **Heinz**. Well, I'll tell you, as you have explained it, it certainly is too technical for me. I don't understand what you've just said.

Mr. **Draper**. OK. All right. Look. What the grant——

Senator **Heinz**. Here's my point. I'm not so interested in so-called practice. That may be important. But what I really want to know, and I really think that Mr. Mulford has to be the person to answer this, because he is the negotiator in Treasury saying, "We want the authority for this, because we are the negotiators," and as the negotiators, the negotiators better know what it is they are trying to negotiate. So I want Mr. Mulford to tell me, since he is the lead negotiator here, what our goal is.

Now I have got to tell you, I can think of a lot of different ways of interpreting the 50 percent. It can be 50 percent of the entire project. It can be 50 percent of the covered portion of the financing. It can be 50 percent of any piece of the project as defined by somebody who wants to find a way to get around it and kind of have a mixed credit of 25 percent, but have it be defined as 50 percent, because they have taken a third of that hypothetical $900 million project which happens just to be the power generation equipment. They have said, this is the part of the project on which we are going to have a 50-percent mixed credit. It just so happens that because it is one of three, it works, instead of 50 percent, to roughly 16⅔ percent of the entire project.

It also so happens that you can't, you know, because of the compatibility issues, the other two elements of the project are actually tied into the middle element I have just described. And so what you've got is a method of getting around the 50 percent.

Now I'm not saying that that is what you intend. What I am saying to you is, I don't understand what you are measuring, and if you are going to negotiate, you'd better be clear on what it is you want to achieve, and right now I can't fathom that from anything either of you have said.

Mr. **Mulford**. Let me just try and make it clear.

Senator **Heinz**. No, we have a vote on. I have 7½ minutes to get to the floor.

I am going to temporarily recess the hearing. This will achieve two objectives. One, it will keep my voting record reasonably decent. Two, it will give you a chance to figure out the answer to the question. [Laughter.]

And so, without objection, we are in recess for about 5 or 10 minutes.

[Recess.]

Senator **Heinz**. The subcommittee will reconvene.

Does anybody want to give me a brief answer to the question that was pending when we recessed?

Mr. **Mulford**. Thank you, Mr. Chairman. I will attempt to do that for you because I think we have the same interest here. I've been engaged in this business only for about 2 years. During my first briefings in this area I had the distinct recollection that I was reading Alice in Wonderland again as I tried to understand the back to front concepts that appear in the mixed-credit field.

To answer your question and to keep it simple, one would first say that a mixed credit, as defined, is usually 100 percent financed. The mixed credit that we would be talking about in that case is the value of the export itself for that project.

The project may be bigger than the portion that is being financed by mixed credit, but the mixed-credit portion will be a 100-percent financing of that element. There may be other elements in the project.

So the minimum on grant element that we have proposed will, in almost all circumstances then, be 50 percent of the value of that export.

Senator **Heinz**. Is there an opportunity for people to gain that system by claiming that it's not one export, it's really three or two?

Mr. **Mulford**. That's what I'm coming to. I just wanted to be sure everybody understands that limited definition.

Now your question is aimed at the real world in which a given project may have various components in it, some of which are financed in the ordinary way and some or one of which might be financed by a mixed credit. And the question, as I understood it, was, is there any means now by which there can be an attempt to link the mixed-credit portion of the project to the other portions and use the mixed-credit portion in a sense to get around the content rule——

Senator **Heinz**. The maximum requirement?

Mr. **Mulford** [continuing]. The maximum requirement that we have come up with? And the answer to that is, no, because during the course of our negotiations very substantial improvements have been made in transparency, in notification and in the definition of Federal-aid credits. The effect of these improvements, which have been agreed and are not disputed by anybody in the group, is that we will be able to look through whatever arrangements apply to the total project to make sure that the mixed-credit portion, as I defined in my opening remarks, is in fact isolated and independent from other financing corponents of the project.

If it were not and there was an attempt being made to link compents, then the mixed-credit rules would apply to the whole project package. This would substantially increase the grant element and become very much more costly for the country concerned.

Senator **Heinz**. Mr. Mulford, I am very reassured by that. Thank you. That's helpful.

SUNSET PROVISIONS

Now the legislation in terms of what it says reads somewhat differently than your testimony, not surprisingly, but it says in the legislation—the President may dismantle the war chest when he believes sufficient progress has been achieved in the negotiations. Now there's a rather clear implication from your statement that raising the minimum threshold for a grant to 50 percent is your definition of sufficient progress.

Is that what the President means here?

Mr. MULFORD. Well, I think that one has to preserve some measure of judgment on the level that is ultimately achieved. I would not want to say that if the grant element were raised to 45 percent instead of 50 or 48 percent that we hadn't in fact achieved our goal. I think there needs to be a little flexibility there. Certainly we are no where near it at the present time, and we still stick to the position that 50 percent is required.

Senator HEINZ. Leaving some reasonable element of flexibility aside for the moment, let's assume that reasonable people agree that whether it's 45, or 55, or 49, or 51, or even 50, that's reasonable progress or sufficient progress. At that point, as I understand the legislation, it is the President's intent to dismantle, abandon, end further use of the legislation and ask Congress to rescind it perhaps, certainly not extend it, and this leads to a second related question which is, since you are talking about in the arrangement a gentlemen's agreement and it is not a treaty, how is the arrangement going to be enforced or enforceable?

We enforce the standard OECD arrangement by the existence of Eximbank. If somebody starts to break the arrangement, one of the things we have typically done—indeed, you've actually have described in your statement that you're going to do it as a first step measure until we get this $300 million—is to derogate on terms—real, not just minor derogation on terms, but 100 years at 2 percent I guess is what was our way of coming to terms with the grant element here.

If the war chest goes out of existence, don't we lose our only ability to enforce?

Mr. MULFORD. On the comment you made about the President taking action—if we are successful in the negotiations, the practice would become self-extinguishing. But for the purpose of making absolutely certain that this is a temporary program, that it doesn't become an entitlement program, there is the provision that there would actually be an action to terminate the program or to have it terminated at the time the sunset provision comes into operation. If in the future there was a reversion to these practices, this would be considered within the OECD group again. It would become obvious over a period of time, and we would have to take some sort of action at that time.

I don't believe that it's terribly wise to preserve the war chest in mothballs. There are other risks in having it available, a great temptation to overuse it or turn it into some other sort of entitlement program. I think we want to avoid that. We've made that commitment clear.

Senator **Heinz**. I'd like to put one last question and return to something that Senator Gorton asked which is the question of whether or not this war chest for the next 2 years is just simply too small a sack of potatoes? It certainly is a threat. The question is: Is it really a credible threat? Is it big enough to be a threat?

Mr. **Draper**. Well, as I say, we could match every offer that the French have made in the last year and not use the $300 million. They have done about $1¾ million of offers in the last year. They will probably get 20 percent of that business. This $300 million doesn't get drawn down until we get the business. So if we have offered $3 billion of offers, we might get $600 million of that business and only a third of that might be the war chest aid because the rest of it would come through authorization on our normal credit terms.

Senator **Heinz**. I guess what I really would like from someone is a quantification of why we think that the $300 million is enough to do the job. It is, I suppose, if it is an answerable question, one that's got to be dealt with in quantitative analysis which is really beyond the ability of a hearing process such as this to go into unless we already had the quantitative analysis that would show the how and wherefores of how that operates. Let me suggest that our staff sit down with you or your staffs to go over that so we can get a clear idea.

Mr. **Draper**. Sure, we would be happy to.

Senator **Heinz**. I guess there's just one piece of unfinished business before I yield to Senator Proxmire here.

You have very clearly stated that this is to be an offensive program. The industries that are being most affected by mixed credits are reporting that there is significant mixed-credit competition for sales in Pacific rim countries and in countries in which we have a fairly substantial market share today. That is particularly true of the People's Republic of China.

PROTECTION OF SUBSTANTIAL MARKETS

Where the United States has a very substantial market, are we saying that we will not under any circumstances use this war chest to defend that market? If somebody tries to do what we intend to do, namely, go and attack in their markets, if they decide to counterattack, as indeed they may be doing preemptorily now, in our strong markets, will we sit there and do nothing or do we have a plan for that?

Mr. **Draper**. No, I don't think that we've said that we won't continue to try to protect our own markets, and in fact in Brazil, where there was a medical equipment order at stake with the Government of Sao Paulo, we met the French mixed-credit offer which was in our market and took it away from them. We got the business.

Senator **Heinz**. Did you do that without offering a mixed credit?

Mr. **Draper**. We offered a concessional loan at a very low-interest rate, but you can't really define it as mixed credit as long as all the credit is coming from the Eximbank. It's not mixed with any aid.

Senator **Heinz**. Very well. My time has expired. Senator Proxmire.

Senator **Proxmire**. Mr. Mulford, in 1983, Mr. William Morris, the Assistant Secretary of Commerce, testified before this committee during our hearings on renewing the Export-Import Bank's charter.

In his prepared testimony Mr. Morris said:

> Some have suggested that the U.S. Government might itself extend mixed credits. The administration opposes initiation by the United States of mixed credits with a low degree of concessionality. We cannot expect to eliminate the unfair initiation of mixed credits by engaging in this practice ourselves.

I agree with Mr. Morris and I can't for 1 minute agree with the view that if we start using mixed credits to take sales away from French companies that they will ask their Government to sue for peace and agree to ban the use of mixed credits below 50 percent conditionality.

Upon what basis does the administration now think its old testimony is wrong and we have to fight fire with fire? Haven't we in fact been successful in raising the grant element in mixed credits from 15 to 20 and now 25 percent and in improving notification procedures?

If so, why should we abandon our past successful strategy?

Mr. **Mulford**. The testimony you refer to is at least 2 years old, first of all, and a great deal has happened since then. We embarked on that time, and have since made some progress, in negotiations within the OECD group to improve the situation with the aim of eliminating mixed credits.

There has been some improvement in raising the grant element, but never to the point that we had indicated would be adequate for this purpose. Our figure is 50 percent.

Senator **Proxmire**. Well, it went from 15 to 20 to 25.

Mr. **Mulford**. It's improved to some extent and we have made some progress, but at the time that that was moving we never indicated that we thought that would be enough progress to eliminate the problem.

SOME IMPROVEMENT IN THE TRANSPARENCY ASPECT

And you also point out quite rightly that there's been some improvement in the transparency aspect, improvements in notification, for example. But the facts are that during this same period, the practice has increased in use, not just on the part of France, but in countries that had at the beginning of the negotiation indicated an in-principle willingness to negotiate an end to the practice.

The negotiation has been unsuccessful in that sense. It has reached an impasse. We believe now that we have no alternative but to fight fire with fire and attempt to engage ourselves in an offensive stance, well-targeted at the countries that are the main perpetrators of this practice. We want to eliminate the practice as quickly as we can before the entire game is lost and all the other participants begin to return to it with increased vigor.

Senator **Proxmire**. Let me pursue this a little bit with Mr. Draper. Mr. Draper, over the past 4 years you've testified against suggestions the administration needs a big war chest to fund mixed credits in order to get other countries to stop using them.

In fact, in February this year, 8 months ago—not 2 years ago but 8 months ago—you told us:

> Even if we had a big barrel of money for mixed credits, I don't think it would change the attitude of the various countries a bit. Most countries are trying to do something about reducing or eliminating the mixed credits. France seems to be the one that's holding out and I think they will get isolated.

Now since you testified in February you've had additional success in negotiating a rise in the grant element in mixed credits to 25 percent and you have improved notification procedures on their use.

Isn't it true the administration is sponsoring this war chest solely to mollify protectionist sentiment among some in Congress and that you don't really believe going to war on mixed credits will resolve the problem? And have you stopped beating your wife? [Laughter.]

Mr. **Draper**. She's looking pretty good these days.

The difference is that 9 months ago we were making progress. We were working with the French. We thought we were moving along.

Now after meeting at the ministerial level and after Mr. Baker had been in difficult negotiations to try and bring about some additional progress, the French agreed to the 25 percent but now say they will not negotiate any further toward the 50 percent. They have dug in their heels and said:

> We've finished with that subject. We won't bring it up. We don't want to move any closer to the 50-percent hurdle level.

So we decided that if that's the way they feel, then we'll really make it hurt and show them that we can bring on our guns, as well as those of other countries that have come up against them, to try and get them back to the bargaining table and get them talking in the way in which their President Mitterrand agreed in Toronto with the other six large country heads. They all agreed that they should reduce subsidies and this is an attempt to reduce subsidies. Now they have said, "We won't deal with this subject any more."

So we decided, well, let's change our tactic and let's go for fighting fire with fire, and so I've come around to being willing to try it.

Now I don't say that it's an assured success, but we're willing to try it and see what happens.

Senator **Proxmire**. In the meeting of the six heads of state you said they agreed to reduce subsidies and now we're coming in with increased subsidies.

Let me ask you, Mr. Mulford, according to Chairman Draper's testimony a $300 million war chest could finance $1 billion in export sales. Will you provide to the committee a cost-benefit analysis indicating whether the benefits of an additional $1 billion in export sales are worth the $300 million in cost to the taxpayer? It's pretty expensive to get that much in exports if the poor old taxpayer has to ante up a third of it.

Mr. **Mulford**. Well, we would be happy to provide that justification, but I would point out that the $300 million war chest allows competition to be raised to the tune of something in the area of $2 to $3 billion, assuming that we're only successful on about a third of our offers. So that in terms of the irritation effect on our competition, it has a much larger effect than simply the end exports that are financed which are $1 billion.

I would also like to comment, Senator, on the question you asked 1 minute ago about the change in the——

Senator **Proxmire**. But our purpose is not to irritate our allies. Our purpose is to increase export sales and the effect would be that for $300 million, you get $1 billion in export sales, and I would be very interested to see how you can justify that to the American taxpayer through a cost-benefit analysis.

Mr. **Mulford**. Our purpose here is to eliminate the use of mixed credits. That is our first and foremost purpose, and to restore the playing field to a level condition so that our exporters can compete without an unfair trade practice being used against them. That is the objective.

EXIM'S EGYPTIAN LOAN

Senator **Proxmire**. Now, Mr. Draper, on December 12 of last year, the Export-Import Bank formally opposed making a preliminary commitment to the Government of Egypt to provide loans or loan guarantees of $255 million in order to assist in financing a 1,000 megawatt nuclear powerplant in Egypt.

Prior to December 1984, the Westinghouse Corp. had several times sought the Bank's assistance on this project. On each prior occasion the Bank refused to participate because there did not appear to be the reasonable assurance of repayment required by the Bank's charter.

In December, the Bank's professional staff continued to oppose the project because they did not believe Egypt could service the debt. Yet, because of political pressure from the White House and the Department of State, the Bank made the loan finding a legal out in the Bank's Export Expansion Facility which requires a lesser probability of repayment.

It's clear from my review of that transaction that the Bank made that loan to achieve a foreign policy objective, despite the fact that it took export support funds away from companies that could qualify under the Bank's reasonable assurance of repayment.

If the Bank could be so subject to political pressure regarding the use of its funds, despite the statutory safeguards which limits its discretion, don't you think that just putting a war chest fund in the Treasury Department without safeguards governing its use would enable those firms with the most political clout to get the money? Isn't there that danger?

Mr. **Draper**. Well, going back to the Egyptian case, we made very clear to the Egyptians that we wanted to see them increase their electricity rates in order that the nuclear powerplant could pay for itself over a period of time. Their current rates, which were about 1 cent per kilowatt hour compared to world rates of 6.5 cents per kilowatt hour, were just so subsidized that the plant would never pay for itself and it would be an enormous debt that Egypt would have to pay off and that's the reason we had concluded that it was a bad thing to approve the loan.

After many discussions with the Egyptians, they did commit that they would gradually bring those electricity rates up to world rates and they have taken action along those lines satisfactory to us to go ahead and approve the commitment to finance it if it's won by Westinghouse or any other American firm.

Now with regard to the $300 million being used for purposes other than negotiating out of mixed credits, I doubt that the Treasury really wants to spend any extra money for any political purpose any more than you want them to, and I suspect that they would be very analytical as to making sure that the $300 million is used only for this purpose, particularly if the Congress gives them those instructions. So I'm not concerned about that.

Senator PROXMIRE. Mr. Draper, I want to ask you just one more question because my time is up.

On October 25—that was just last Thursday—the Washington Post carried a column by Evans and Novak about the Reagan administration's attempt to block any United States aid to anti-Communist forces fighting in Angola on the basis that the United States must be neutral between the Communist regime and the rebel forces which are anti-Communist. That article pointed out that the Export-Import Bank recently made a loan of $129 million to Angola's Communist Government to expand its oil producing and refining operations.

I want to know if that's true and, if so, what's the rationale for using the Bank's scarce resources to assist such a Communist regime, especially when it's opposed by a rebel force which is sympathetic to our views, and what American companies benefited from that loan?

ANGOLA AID

Mr. DRAPER. It is true that we have made loans to Angola. Under the Chafee amendment to our act, we can't refuse to make a good quality loan that we are likely to get repaid on just on the basis of its being a Communist country or for any other nonfinancial or noncommercial reason unless the President of the United States, or the Secretary of State to whom he has delegated the authority, says that it is in our interest not to make that loan. And we have not been so instructed by the Secretary of State or the President of the United States.

So that was a perfectly legitimate market for us to work in. Those loans were made some time ago, but it is perfectly true that we are open in Angola and in certain Communist countries, including of course Yugoslavia and the People's Republic of China which Chairman Heinz mentioned as being a good area for us to do business with.

Senator PROXMIRE. Will you secure a reply for the record from the State Department as to why it's in our interest to do business with the Communist Government of Angola under these circumstances?

Mr. DRAPER. It might be more useful to you to just show you the restrictions under which we operate that are——

Senator PROXMIRE. No, you've made a very good answer. You say that your hands are tied and that you could have avoided this if the State Department or the President had indicated that this was not in our interest and therefore shouldn't be made.

So I'm asking you to ask the Secretary of State to provide the supporting evidence that it was in our interest to make that loan to Angola. Can you do that for us?

Mr. DRAPER. I can give you our picture on it. I can't speak for the Secretary of State. I think he'll have to speak for himself. I would be happy to supply you some information on it, though.

Senator PROXMIRE. Well, if you ask the Secretary of State and I ask the Secretary of State, maybe we can get an answer. OK?

Mr. DRAPER. OK.

[The following information was subsequently supplied for the record:]

"C"

United States Senate
COMMITTEE ON BANKING, HOUSING, AND
URBAN AFFAIRS
WASHINGTON, DC 20510

November 4, 1985

The Honorable George P. Shultz
Secretary of State
Department of State
2201 C Street NW
Washington, DC 20520

Dear Mr. Secretary:

On October 25, 1985, the Washington Post carried a column by Rowland Evans and Robert Novak about the Reagan Administration's attempts to block any U.S. aid to anti-communist forces fighting in Angola on the basis that the United States must be neutral in the struggle between that country's communist Luanda regime and the rebel forces led by Jonas Savimbi. The article pointed out, however, the United States Export-Import Bank recently made a loan of $129 million to Angola's communist government so it could expand the country's oil-producing and refining operations.

On October 30th Mr. William Draper, the Chairman of the Export-Import Bank, testified before the Senate Banking Committee, on which I am the ranking member, in favor of the Administration's request for an additional $300 million from our taxpayers to subsidize American exports. During his appearance I asked Mr. Draper whether it was true that the Bank used $129 million of its scarce resources to make a loan to the communist government of Angola. Mr. Draper said it was true. In attempting to justify that action he said the Bank could not refuse to make such a "good quality loan" to a communist country "unless the Secretary of State or the President says that it is in our interest not to make that loan."

Since the Department of State serves on the National Advisory Council, the interagency committee which reviews Eximbank loans before they are made, I must conclude that you or your subordinates decided it was in our national interest to make that $129 million loan to Angola's communist regime. I would very much like to know how you or the Department reached such a judgment.

Thank you for your cooperation. I look forward to hearing from you on this matter.

Sincerely,

William Proxmire, U.S.S.

United States Department of State

Washington, D.C. 20520

DEC 9 985

Dear Senator Proxmire:

The Secretary has asked me to reply to your letter of November 4 concerning Exim Bank financing of American exports to Angola.

As you know, the last several months have seen an escalation in the war in Angola, one accompanied by increased Soviet involvement and South African intervention. We view this escalation with concern and share the sympathy of many Americans for Dr. Savimbi's fight against Soviet-supported aggression. We wish to be supportive of UNITA. In the coming weeks we intend to work with Congress to meet that objective in a way compatible with our broader policy goals for the region. Meanwhile, we are actively pursuing indications from both Luanda and Pretoria that they are interested in moving negotiations on Cuban troop withdrawal from Angola and the independence of Namibia forward to agreement.

Your letter on Exim Bank transactions with Angola raises two issues: the reported $129 million Exim loan to Angola and the general question of Exim authority to conduct business in Angola. I would like to respond to each in turn.

The reports of a recent Exim Bank loan of $129 million are inaccurate. Although total Exim exposure in Angola totals some $230 million, the Bank has not approved any Angola transactions since 1984. The origin of the reports is unclear but appears based on events surrounding a private $130-150 million financing package put together by U.S. and European banks earlier this year. U.S. banks' share of that package totalled about $70 million, of which some $9 million consisted of Exim loan guarantees approved in mid-1984.

The Honorable
    William Proxmire,
        United States Senate.

With respect to the second question, Exim's financial involvement in Angola consists of loans and loan guarantees. They are made on a solid business analysis of risk and are not grants in aid to Angola, but rather constitute support of American exports--and therefore American jobs. There are alternative Western suppliers eager to take our place in this lucrative and growing market.

The responsibilities of the Department of State for Exim Bank transactions are based on Section 2(b)(1)(B) of the Export-Import Bank Act of 1945, as amended. This section, adopted in 1978 and generally referred to as the Chafee amendment, states that Exim Bank should deny applications for credit for nonfinancial or noncommercial considerations "...only in cases where the President determines that such action would be in the national interest, where such action would clearly and importantly advance U.S. policy in such areas,as international terrorism, environmental protection, and human rights..." (The authority to make such determinations was subsequently delegated to the Secretary of State.) Statements made at the time the amendment was passed clearly indicate that Congress intended this authority to be exercised with great care. We have been guided by this congressional intent and have invoked the Chafee amendment to prevent Exim Bank transactions only for three countries: Chile in 1979, Argentina in 1982 during the Falklands crisis, and Libya in March 1985. The determinations by the Secretary of State against Chile and Argentina have since been revoked.

State Department responsibilities for Exim transactions also arise with respect to Section 2(b)(2) of the Export-Import Bank Act, which prohibits Exim from engaging in transactions of benefit to "communist countries" as defined in Section 620(f) of the Foreign Assistance Act of 1961, as amended. This and past Administrations have followed a consistent policy in this regard. A country is deemed to be communist for purposes of this provision based on such factors as its identification with and commitment to communist ideology on the Soviet model; the degree to which the Soviet Union exercises political control over the regime in power; and the nature of its economic system, including whether foreign commercial enterprises can freely operate ther . It is our view that on balance Angola does not share the characteristics common to the countries such as the Warsaw Pact members which are generally understood to be "communist countries" for this purpose.

As you know, our policy toward Angola is undergoing review. I wish to reemphasize that we have and will continue to review on a case-by-case basis all proposed Exim transactions in Angola for their possible effects on our foreign policy objectives and our commercial interests.

With best wishes,

Sincerely

L. Ball

William L. Ball, III
Assistant Secretary
Legislative and Intergovernmental Affairs

Senator **Proxmire**. Thank you, Mr. Chairman. My time is up.

Senator **Heinz**. Senator Proxmire, thank you.

Mr. Draper, Mr. Mulford, thank you very much for your testimony. We appreciate your taking so much time and we will be looking forward to a couple of answers in writing from you and there may be other members of the committee who will be submitted questions to you for a written reply.

Mr. **Draper**. Thank you, Mr. Chairman.

Mr. **Mulford**. Thank you very much.

[Response to written questions of Senators Proxmire and Dodd follow:]

DEPARTMENT OF THE TREASURY
WASHINGTON

December 9, 1985

Legislative Hearings on S. 1763
Subcommittee on International Finance and Monetary Policy
Committee on Banking, Housing and Urban Affairs
Wednesday, October 30, 1985

Questions submitted to: The Honorable David C. Mulford, Assistant Secretary of the Treasury for International Affairs, from Senators Christopher Dodd and William Proxmire

EFFECTIVENESS OF A $300 MILLION WAR CHEST
(Senator Dodd)

QUESTION: Dr. Mulford, how did the Administration decide that $300 million would be the appropriate sum to convince other governments that the United States was serious about combating export credit subsidy practices by them? Given the extent to which some of our trading partners have been subsidizing exports, do you really think this sum is sufficient to convince them of our resolve?

ANSWER:

The $300 million War Chest would give the Department of the Treasury significant leverage in negotiating an end to tied aid credit abuses. Since the $300 million facility proposed in S. 1763 is in the form of grants, these funds, when combined with normal Eximbank financing, can support up to $1 billion in exports by the United States. Since U.S. exporters will not win all tied aid credit competition, however, the fund will support tied aid credit offers totaling $2.5-3 billion.

To give some perspective on the impact of S. 1763, tied aid credits from all OECD countries with a grant element below 50 percent account for $4-6 billion of annual worldwide trade. French tied aid credit offers average about $1.5 billion annually. Therefore, we feel that an offensive tied aid credit fund targeted at those countries impeding negotiations will have a significant impact on markets, sectors, and projects of particular importance, thus encouraging them to negotiate an end to this unfair trade practice.

PROCEDURES FOR THE WAR CHEST
(Senator Dodd)

QUESTION: Obviously, in any effort by U.S. exporters to compete effectively, they will need to know in a timely fashion whether or not these funds will be available for their use. As a practical matter, how will Treasury decide which exporters will be eligible for this financing? What kind of procedures would you expect to work out with the U.S. Export-Import Bank to insure expeditious processing of requests?

ANSWER:

The Department of the Treasury is the lead agency in the negotiations to restrict tied aid credits and as such should have control over the tactical and strategic use of the War Chest. The purpose of the fund is to target those countries which are impeding negotiations to end tied aid credit abuses. Therefore, our objective is to target markets, sectors, and projects of particular importance to these countries. The Administration is committed to making the fund work. Efficiency and simplicity are important. Therefore, we will avoid any new bureaucratic structure.

Treasury control over the fund will not affect the application process. Eximbank will still be the point of contact for U.S. exporters and conduct its usual assessment of creditworthiness and project feasibility and will offer its credit commitment. Treasury will actively seek the advice of other agencies of the National Advisory Council on each decision, in much the same was as Eximbank does now on a weekly basis. Once Eximbank has evaluted a credit, the decision whether or not to draw on the tied aid credit fund can be made in a very short time.

COSTS AND BENEFITS OF WAR CHEST
(Senator Proxmire)

QUESTION: What are the costs and benefits of the War Chest legislation proposed by the Administration?

ANSWER:

The War Chest proposal embodied in S. 1763 would give Treasury the needed leverage to negotiate international restrictions to eliminate the unfair trade practice of using tied aid credits for commercial purposes. S. 1763 is a well-focused, cost-effective means to expand U.S. trade, to maintain U.S. jobs in the export sector, and to enable all U.S. exporters to compete internationally on an equal footing. The benefits of S. 1763 should thus not be measured in terms of the U.S. exports actually financed, but in terms of the benefits which arise from eliminating tied aid credit abuses.

S. 1763, by targeting those countries impeding progress, will encourage those countries to agree to a significantly higher grant element. This will virtually eliminate the use of tied aid credits for commercial purposes in competition with U.S. exporters. Since the War Chest is structured in the form of grants, the maximum cost would be $300 million. This cost will be less if negotiations are successful before the entire $300 million has been totally committed.

Successful negotiations to eliminate this unfair trade practice will have a significant impact on U.S. trade and will preserve U.S. jobs in the export sector. Tied aid credits with a grant element below 50 percent account for $4-6 billion of annual worldwide trade. If U.S. firms were competing on an equal footing, we estimate that at least 20 percent of this trade, or $800 million to $1.2 billion in exports annually would go to U.S. firms. When spare parts and follow-on business are taken into consideration, the impact on trade doubles.

An offensive War Chest is more likely to achieve our negotiating objectives than a defensive War Chest.

- Simply matching foreign competition does not work, particularly since it allows the foreign competition to open the bidding. A number of countries, most notably the United Kingdom and Canada, have mounted defensive tied aid credit programs since 1981, but these programs have been unsuccessful in pressuring governments such as France and Italy to accept reasonable limitations on this practice.

BEST COPY AVAILABLE

- -- An offensive tied aid credit program targeted in those markets and sectors of importance to countries impeding negotiations will intensify the political and economic pressure on these countries to negotiate restrictions on this practice.

- -- Our experience during six years of negotiations to improve the OECD Export Credit Arrangement Guidelines from 1977 to 1983 indicates that an offensive strategy is much more effective than a defensive strategy. Only when Eximbank took the offensive in 1981-83 by extending repayment terms out to 15-20 years when facing competition from countries blocking negotiations were we able to make significant progress in negotiations.

The $300 million grant facility in S. 1763 represents a powerful negotiating tool. The $300 million fund could, when blended with export credits for Eximbank, support $1 billion in exports by the United States. Since U.S. exporters will not win all tied aid credit competition, however, the fund will support tied aid credit offers totaling $2.5-3 billion.

An offensive War Chest is a less expensive means of achieving our objective than a defensive War Chest. An offensive War Chest, since it is more likely to achieve our negotiating objectives, would result in a level playing field for all U.S. exporters, eliminating the problem once and for all. The cost of this program would be $300 million in budget authority. U.S. exports for the next five years would increase by $4-6 billion if negotiations are successful. Removal of tied aid credit distortions to trade will affect U.S. employment and income, particularly preserving U.S. jobs in the export sector.

A defensive program would be unlikely to achieve our negotiating objectives and would be much more costly. The estimated cost during the next five years of a defensive program would be $1-1.5 billion in grant funds. The trade and employment impact would be the same as the offensive program, but three to five times more expensive. There would be little or no impetus for those countries impeding negotiations to agree to an effective solution to the tied aid credit problem.

An offensive War Chest targeted at achieving negotiating success is beneficial to all U.S. exporters when compared to a defensive War Chest which would benefit only a few. While an offensive program would benefit only a few U.S. exporters in the short term it would contribute to successful negotiation of a final resolution of this problem which would benefit all U.S. exporters in the long term. A defensive tied aid credit program will benefit only a few U.S. exporters in both the short term and the long term.

Sincerely,

Bruce E. Thompson, Jr.
Assistant Secretary
(Legislative Affairs)

DEPARTMENT OF THE TREASURY
WASHINGTON

ASSISTANT SECRETARY

December 12, 1985

SENATOR PROXMIRE QUESTIONS

FOR ASSISTANT SECRETARY MULFORD

Dear Mr. Chairman:

I have enclosed our response to Senator Proxmire's question on S. 1763, the Fair Export Financing Act of 1985.

COSTS AND BENEFITS OF WAR CHEST
(Senator Proxmire)

QUESTION: How deep should export subsidies be? Why would an export subsidy of more than 25 percent ever be in the national interest? Wouldn't the cost of such subsidy outweigh any conceivable benefits to the Federal Government in terms of increased tax revenues and reduced unemployment? If the French and Italian governments want to make irrational subsidies to their exporters why must we match them? Couldn't our society better use the financial resources involved in such subsidies in a more productive manner than by subsidizing foreign consumers?

ANSWER:

The Administration has always opposed export subsidies. They are a form of protectionism. Nonetheless, intervention in international trade by the U.S. Government, even though costly to the U.S. economy in the short run, may be justified if it serves a strategic purpose of increasing the cost of interventionist policies by foreign governments and encouraging the negotiated elimination of their trade-distorting activities. Thus, there is a potential role for carefully targeted measures -- explicitly temporary -- to convince other countries to reduce export credit subsidies.

The War Chest proposal embodied in S. 1763 would give Treasury the needed leverage to negotiate international restrictions to eliminate the unfair trade practice of using tied aid credits for commercial purposes. S. 1763 is a well-focused, cost-effective means to expand U.S. trade, to maintain U.S. jobs in the export sector, and to enable all U.S. exporters to compete internationally on an equal footing. The benefits of S. 1763 should thus not be measured in terms of the U.S. exports actually financed, but in terms of the benefits which arise from eliminating tied aid credit abuses.

S. 1763, by targeting those countries impeding progress, will encourage those countries to agree to a significantly greater discipline over tied aid credits. This should virtually eliminate the use of tied aid credits for commercial purposes in competition with U.S. exporters. Since the War Chest is structured in the form of grants, the maximum cost would be $300 million. This cost will be less if negotiations are successful before the entire $300 million has been committed.

Successful negotiations to eliminate this unfair trade practice will have a significant impact on U.S. trade and will preserve U.S. jobs in the export sector. Tied aid credits with a grant element below 50 percent account for $4-6 billion of annual worldwide trade. If U.S. firms were competing on an equal footing, we estimate that at least 20 percent of this trade, or $800 million to $1.2 billion in exports annually would go to U.S. firms. When spare parts and follow-on business are taken into consideration, the impact on trade doubles.

An offensive War Chest is more likely to achieve our negotiating objectives than a defensive War Chest.

-- Simply matching foreign competition does not work, particularly since it allows the foreign competition to open the bidding. A number of countries, notably the United Kingdom and Canada, have mounted defensive tied aid credit programs since 1981, but these programs have been unsuccessful in pressuring governments such as France and Italy to accept reasonable limitations on this practice.

-- An offensive tied aid credit program targeted in those markets and sectors of importance to countries impeding negotiations will intensify the political and economic pressure on these countries to negotiate restrictions on this practice.

-- Our experience during six years of negotiations to improve the OECD Export Credit Arrangement Guidelines from 1977 to 1983 indicates that an offensive strategy is much more effective than a defensive strategy. Only when Eximbank took the offensive in 1981-83 by extending repayment terms out to 15-20 years, when facing competition from countries blocking negotiations, were we able to make significant progress in negotiations.

The $300 million grant facility in S. 1763 represents a powerful negotiating tool. The $300 million fund could, when blended with export credits for Eximbank, support $1 billion in exports by the United States. Since U.S. exporters will not win all tied aid credit competition, however, the fund will support tied aid credit offers totaling $2.5-3 billion.

An offensive War Chest is a less expensive means of achieving our objective than a defensive War Chest. An offensive War Chest would result in a level playing field for all U.S. exporters by eliminating the problem once and for all. The cost of this program would be $300 million in budget authority. U.S. exports for the next five years would increase by $4-6 billion if negotiations are successful. Removal of tied aid credit distortions to trade will affect U.S. employment and income, particularly preserving U.S. jobs in the export sector.

A defensive program would be unlikely to achieve our negotiating objectives and would be much more costly. The estimated cost during the next five years of a defensive program would be $1-1.5 billion in grant funds.

The trade and employment impact would be the same as the offensive program, but three to five times more expensive. There would be little or no impetus for those countries impeding negotiations to agree to an effective solution to the tied aid credit problem.

An offensive War Chest targeted at achieving negotiating success is beneficial to all U.S. exporters when compared to a defensive War Chest which would benefit only a few. While an offensive program would benefit only a few U.S. exporters in the short term it would contribute to successful negotiation of a final resolution of this problem which would benefit all U.S. exporters in the long term. A defensive tied aid credit program will benefit only a few U.S. exporters in both the short term and the long term.

Sincerely,

Bruce E. Thompson, Jr.
Assistant Secretary
(Legislative Affairs)

The Honorable
John Heinz
Chairman
Subcommittee on International
Finance and Monetary Policy
Committee on Banking, Housing
and Urban Affairs
United States Senate
Washington, D.C. 20510

Enclosure

EXPORT-IMPORT BANK OF THE UNITED STATES

QUESTIONS SUBMITTED BY SENATOR DODD

SENATOR DODD: Mr. Draper, are you satisfied that the appropriate agency to have authority over disposition of these funds is the Department of Treasury? Wouldn't the U.S. Export-Import Bank have been a more logical place to house this fund? Doesn't housing it with Treasury add yet another complication for U.S. companies seeking assistance in exporting?

MR. DRAPER: We believe that Treasury is the appropriate agency in which to house the fund. Department of Treasury has the lead responsibility for negotiations in the OECD export credit group and the principal purpose of this fund is to help bring about a successful negotiation on the problem of mixed credits. At the same time, Eximbank participates in these negotiations with Treasury and Eximbank and Treasury both have a common goal in successful conclusion of these negotiations. Although the Treasury Department will have authority over the disposal of funds, Eximbank will process the individual cases as we do now and the exporter will continue to approach Eximbank on a case-by-case basis.

SENATOR DODD: Mr. Draper, what role will you play in determining which sectors and countries should be targeted with these funds? What are the most likely sectors to receive assistance?

MR. DRAPER: Eximbank will work very closely with Treasury in determining the countries to be targeted with these funds as cases are selected for action by the Bank's Board of Directors, the NAC and Treasury Department. The criterion for selecting targets for these funds will be to select those cases that are clearly focused on the French, as well as the Italians and Belgians, plus any other OECD countries that may be standing in the way of successful resolution of the mixed credit problem.

SENATOR DODD: The FY 1986 appropriations bill as reported by the House Appropriations Committee contains only $784 million in appropriations for Exim's Direct Loan Program for FY 1986 which is $784 million more than the Administration requested for a program it wanted to terminate. (However, this is well below the $3.8 billion in FY 1985.) What is the Administration's current thinking on the Direct Loan Program? Do you support its continuation?

MR. DRAPER: The administration still supports the I-MATCH program at a level of $1.8 billion as a substitution for direct lending.

SENATOR DODD: What has been the reaction of the business community to the war chest proposal?

MR. DRAPER: We believe that the business community is in favor of a fund being established for the purpose of enhancing the U.S. negotiating position on mixed credits and agrees to the agressive use of this fund for this purpose. The business community has raised questions concerning the mechanics of operating the program similar to those outlined above. We believe the answers given above have for the most part come a long way in dispelling those concerns.

SENATOR PROXMIRE QUESTIONS FOR CHAIRMAN DRAPER

1. I want to follow up on the question I asked you at the hearing on the Bank's December 1984 decision to provide $255 million in loans or loan guarantees to the government of Egypt in order to assist that government in financing a thousand megawatt nuclear power plant. I noted that the Bank had previously turned down the Westinghouse Corporation's request for assistance on that project because the Bank concluded there did not appear to be the "reasonable assurance of repayment" required by the Bank's charter -- and only approved the loan after the Department of State and White House said the loan was needed to fulfill a foreign policy objective.

At the hearing you admitted the Bank had previously ruled against the loan, but said the Egyptians stated they would bring "electricity rates up to world rates." This, you imply, convinced you the project could fund itself and that the Bank would be repaid.

Did the Bank's professional staff agree with you that the assurances from the Egyptian government provided the "reasonable assurance of repayment" required by the Bank's charter? Did not the professional staff continue to have reservations about the ability of Egypt to repay any such loan? Wasn't this loan offer made because the Department of State wanted it made for political reasons as I suggested in my original question?

(RESPONSE TO QUESTION FOLLOWS)

EXIMBANK
EXPORT-IMPORT BANK OF THE UNITED STATES
WASHINGTON DC 20571
OFFICIAL BUSINESS

The Honorable William H. Draper, III
President and Chairman
The Export-Import Bank of the
United States
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ANSWER TO SENATOR PROXMIRE'S QUESTIONS CONCERNING AUTHORIZATION OF A PRELIMINARY COMMITMENT TO FINANCE U.S. EXPORTS FOR THE EGYPTIAN NUCLEAR PLANT

MR. DRAPER.

Eximbank's decision to approve the Preliminary Commitment for the Egyptian nuclear power project was made after very careful deliberation. In reviewing the financing request, the Bank's Board of Directors took into account the objections presented by its staff and also weighed carefully advice offered by other U. S. Government agencies which had legitimate interests in this project. This was particularly true in relation to the Department of State and its interest in controlling the spread of nuclear technology. After considering all of the facts in this case, the Board believed that the project could be supported based on the following significant factors.

The U. S. Government received assurances from Egyptian Government officials that electricity prices would be increased progressively in Egypt so that the project would be economically viable. There was confirmed foreign competition for the project with officially supported financing being offered by a French-Italian consortium. The project was and remains important for the U. S. nuclear industry because of the lack of new nuclear projects in the United States and abroad in recent years. In addition, the Board believed that there would be major benefits to U.S. non-proliferation policy associated with supply of U. S. nuclear technology and equipment for the El Dabaa reactor, which would be the first nuclear power plant to be constructed in Egypt.

Senator HEINZ. I'd like to ask our next panel of witnesses to come forward: Dr. Gary Hufbauer, Dr. Fruzsina Harsanyi, Mr. Warren Hollinshead, and somebody who's no stranger to this committee, Mr. William Trammell.

We would like to welcome you to the committee. I'd like to ask Dr. Hufbauer to be the first witness on our panel. Dr. Hufbauer, please proceed.

STATEMENT OF DR. GARY C. HUFBAUER, MARCUS WALLENBERG PROFESSOR OF INTERNATIONAL FINANCIAL DIPLOMACY, GEORGETOWN UNIVERSITY

Dr. HUFBAUER. Thank you, Mr. Chairman. First, let me apologize for the absence of a prepared statement. I explained to your able staff that I just wasn't able to write something in time.

Senator HEINZ. Very well.

Dr. HUFBAUER. I'm not enthusiastic about the administration's $300 million mixed-credit war chest, but my doubts go to tactics and not objectives. When in the Treasury, I devoted a great deal of time to combating mixed credits. My successors managed to raise the requisite grant element for mixed credit in the OECD consensus from 15, to 20, to 25 percent, and to lengthen the notification period. But, of course, the problem has gotten worse, now that the Italians have joined the French in blocking European agreement on a tighter regime of discipline.

Mr. Chairman, I recall your affectionate opening words for academics and economists, and I would like to emphasize that the analysis I'm going to give you is based on practical experience as well as ivory tower reflection.

Recognizing that we share objectives, I would like to turn to tactics and try to address the question you asked: How do we get rid of mixed-credit financing?

ARITHMETIC WORKS AGAINST THE WAR CHEST

I think the arithmetic works against the proposed $300 million war chest. Taking the administration's figures, this war chest would finance up to 1 billion dollars' worth of actual export contracts over a 2-year period. This figure should be compared with a prospective level of global mixed-credit contracts of $8 to $10 billion over 2 years. I think that $1 billion against $8 to $10 billion is just too small a proportion.

The U.S. Treasury hopes that if the war chest is largely focused in an aggressive and even preemptive campaign against France and Italy, those two countries will reconsider their position within the European Community and we will get better rules in the OECD consensus on export credits.

Let me make an important digression here. The European Community in the last few years has gone from a consensus system to a system where, if only one country objects, the community can still adopt a position for the purpose of international negotiations. This means that, if France can be isolated on the mixed-credit question, then the European Community could agree to tighter rules in the OECD consensus. But of course now that France has an ally in

Italy on the mixed-credit question, it's not possible to reach agreement.

It seems to me that France and Italy may look at the sunset provision in this war chest bill, and, notwithstanding the testimony you have heard this morning, those nations may decide they could weather out a 2-year storm of United States mixed-credit competition.

Second, there is a discordance, as I see it, between the United States Treasury's negotiating goals—namely hitting the French and the Italians—and the commercial realities of the marketplace where Japan, Canada, and the United Kingdom are our principal mixed-credit competitors. In materials attached to Mr. Trammell's testimony, those three countries are named ahead of France in the concerns of the American business community. So there will be real tension, as your questioning of Mr. Mulford indicated, between United States exporters who will say let's compete with Japanese mixed-credits, and the Treasury which will say let's focus the thunder against the Italians and the French.

I suspect that, under this tension, the U.S. war chest effort will become a scatter shot answer.

Now the response to that analysis might be to say, well, let's go for a war chest of $500 million or even $1 billion and let's renew the war chest after the 2-year sunset. Here, I just have to look back at the history of U.S. export credit financing. Historically, over many Congresses controlled by different parties, working with different administrations, the United States has been quite stringent toward export finance. The United States has typically financed less than 10 percent of its exports through the Eximbank, if we take guarantees and direct credits together. That's a much lower percentage than our competitors—the United Kingdom, France, Japan, and some other European countries. I just do not see a basic change in attitude that would cause us to rethink this historic stringency which has prevailed since the Second World War.

Another small digression. It was said that we have Japanese goodwill in the mixed-credit negotiations. Here I must recall the United Kingdom-Japanese competition using mixed credits over the Bosphorus bridge. The French were not a competitor in that case. If the Japanese are so filled with goodwill on the mixed-credit question, then why were they competing with the United Kingdom which is also—and I say this from personal experience—filled with goodwill on this question?

Senator **Heinz**. I didn't hear the last part about the United Kingdom.

Dr. **Hufbauer**. Well, in my personal experience, the United Kingdom is an enemy of mixed credits. But the United Kingdom was locked in competition with the Japanese in the Bosphorus. So I conclude there will be a real temptation to direct a good deal of our own energies against Japanese mixed-credit practices in Indonesia and elsewhere. My fear is that this temptation will lead to a scatter shot approach. I think other countries will just say, "Welcome to the club," and the end result will be an upward ratchet in export credit subsidization.

In fact, I see the following sort of Uncle Sucker economic diplomacy as being entirely within the realm of the possible. Let's say

France or Japan wants to improve diplomatic ties with Indonesia. Indonesia wants to acquire a pulp and paper plant. A close analysis shows that Kellogg really has the best suited equipment. Nevertheless, France or Japan offers a mixed credit for its equipment manufacturer and the U.S. Export-Import Bank matches. Indonesia accepts the Eximbank-Kellogg offer, and Indonesia gives France a warm but private diplomatic embrace. And this is all paid for by the U.S. taxpayer. That may sound fantastic, but my experience indicates that it's not so fantastic.

SOLUTION TO THE MIXED-CREDIT PROBLEM

Let me emphasize that raising these problems is not to deny the real and aggravating problems that we have with mixed credits. What I have worked on is a solution that takes the financing burden off the back of the American taxpayer and puts it where it belongs—namely, on the offending foreign government.

Briefly, my solution involves the following steps.

In the first instance, the U.S. Treasury should match foreign mixed-credit offers, using the war chest. Then, very quickly, the Treasury should replenish the war chest by a low-rate tariff imposed on all U.S. imports from the country that initiated the mixed credit competition. The low-rate tariff would be designed, for example, to recoup the grant element over a short period—let's say 2 years.

Obviously, this approach would raise GATT problems and it would raise international temperatures. What I say to those objections is that, if the United States does not have the diplomatic staying power to meet such difficulties head on, then I very much doubt that the American taxpayer and successive Congresses will have the deep-pocket staying power to meet the mixed-credit problem by providing more and more war chest funds over the years.

Here's the alternative approach I would suggest. Congress would enact legislation along the lines of the bill that you have sponsored, Mr. Chairman, calling on the administration in the first instance to negotiate an end to mixed-credit competition. The 50-percent grant element requirement, refined along the lines of your previous colloquy with Mr. Mulford, would provide an appropriate benchmark for negotiations. Agreement should be reached within a short period of time; 12 months should be adequate.

As the fallback alternative, the administration would be directed to negotiate a multilateral GATT procedure for approving replenishment tariffs through a process of binding panel decisions. The GATT panels would identify the initiating country and authorize replenishment tariffs, all on a fast-track basis.

Finally, as a last resort, failing those first two alternatives, the administration would be required to unilaterally impose replenishment tariffs following a fast-track ITC hearing.

Mr. Chairman, thank you for the opportunity to appear.

Senator Heinz. Dr. Hufbauer, thank you for your very knowledgeable testimony and very intriguing suggestion.

Dr. Harsanyi.

STATEMENT OF DR. FRUZSINA M. HARSANYI, DIRECTOR, INTERNATIONAL GOVERNMENT AFFAIRS, COMBUSTION ENGINEERING, INC., ON BEHALF OF THE COALITION FOR EMPLOYMENT THROUGH EXPORTS

Dr. Harsanyi. Mr. Chairman, I have a statement to submit for the record.

Senator Heinz. Without objection, your entire statement will be a part of the record.

Dr. Harsanyi. I'd like to summarize it. I am Fruzsina Harsanyi and I'm director of international government affairs for Combustion Engineering. I'm appearing here on behalf of the Coalition for Employment Through Exports [CEE], which is an organization you know well.

I am pleased to join particularly two of the gentlemen at this table, two of the gentlemen who represent formidable competitors in the marketplace.

Senator Heinz. Dr. Hufbauer, I think you're the odd man.

Mr. Hufbauer. I think so. [Laughter.]

Dr. Harsanyi. We are, however, allies in this particular forum as American companies seeking the support of our Government in the face of foreign competition in the real world of the market, not in the theoretical world of academia.

CEE is pleased to appear before this subcommittee because of its continued interest in a competitive Export-Import Bank and its longstanding commitment to deal aggressively with mixed-credit abuses.

DAMAGING EFFECTS ON U.S. JOBS AND INDUSTRY

Mr. Chairman, you recognized some time ago the damaging effects this kind of predatory financing has on U.S. jobs and industries and the obstacles these export subsidies pose to an open international trading system. After all, the idea of a war chest originated in this subcommittee. It was a good idea when you thought of it and it's a good idea now.

Before commenting specifically on the administration's proposal, I would just like to say a word about the magnitude of the mixed-credit problem.

We have been debating the numbers for years—how big is it, how many projects, how many dollars. When we talk about how big or how many projects, what do we mean by that? Is it 10, is it 100, is it 300? I would just like to give you one company's perspective, in this instance Combustion Engineering, on how big the problem is.

This year Combustion Engineering won 100 percent of market share in the domestic utility market. One hundred percent market share meant one job. There was one boiler that was let this year. So when we're talking about what the international market means for us and a mixed-credit offer that could bring home one of those boiler jobs, we are talking about something that is extremely important to us and something that means jobs and something where the bottom line is that American companies will lose business or they will source offshore.

Now this is Combustion Engineering's experience. The Coalition for Employment Through Exports also surveyed its member companies and came up with pretty much the same conclusion. The bottom line is that mixed credits are an important issue, an extremely important issue; that their total trade impact is in the billions of dollars and therefore, that these are important policy implications.

We are glad there's a consensus emerging on this. We welcome the administration's and other proposals being considered and have some comments to offer.

First, CEE regards the proposed fund as an important negotiating tool. It must be used aggressively to maximize the strength of our chief negotiator, the Secretary of the Treasury.

Second, our mixed-credit programs under the current charter should be enhanced rather than terminated as they would be in the administration's bill.

Third, beside assuring our exporters the support they need in dealing with current competitive pressures, the strengthening of the existing defensive program is critical to the success of any war chest. The programs in Eximbank and AID strengthen the U.S. Government's negotiating position through added flexibility. Similarly, an offensive program requires accurate and timely market information. The market intelligence Treasury needs for targeting war chest activities depends upon private sector cooperation which will be available only if U.S. companies are assured an effective retaliatory program.

Fourth, the legislation establishing the war chest fund should in no way erode the traditional authority of the Eximbank or divert resources from the Bank's direct-credit authority to extend mixed credits out of its own resources.

Fifth, language should be written into any war chest bill so that Eximbank maintains its current statutory authority to extend mixed credits out of its own resources.

Sixth, legislation must make it clear that the war chest is supported by new money. This is important to Eximbank's institutional integrity, to an effective trade policy, and to a truly enhanced negotiating posture.

Seven and finally, under no circumstances should AID's ability to participate in a mixed-credit response be diminished. It is important that this committee's efforts to assure AID's involvement in responding to mixed credits continue. In fact, a reevaluation of AID operations as they compare to its sister institutions overseas may be in order if a longrun solution to mixed credits is to be achieved.

Thank you.

[The complete prepared statement follows:]

STATEMENT OF DR. FRUZSINA HARSANYI

I am Fruzsina Harsanyi, Director, International Government Affairs, Combustion Engineering, appearing on behalf of the Coalition for Employment Through Exports, Inc. (CEE). CEE is composed of 55 large and small business organizations, 14 labor unions and 12 governors. Through the four trade associations in our membership, CEE represents nearly 1,000 small businesses actively involved in exporting. A list of our membership is attached.

Our coalition appreciates the opportunity to appear here today. It was three and one-half years ago that our group was formed. The common bond of our diverse membership is a commitment to a strong and competitive Export-Import Bank. We have worked hard to assure that U.S. companies with the active assistance of the Eximbank are not driven from overseas markets by the financing practices of foreign governments.

CEE is pleased to appear before this subcommittee because of its continued interest in a competitive Export-Import Bank and its long-standing commitment to deal aggressively with mixed credit abuses. Chairman Heinz recognized sometime ago the damaging effects this kind of predatory financing has on U.S. jobs and industries and the obstacles these export subsidies pose to an open international trading system. The idea of a war chest originated in this subcommittee and since 1980 Senator Heinz has sponsored a number of proposals to force a negotiated end to mixed credits. This body and its Chairman are to be commended for the number of important steps they have taken to defend our exporters against foreign mixed credit practices.

We would like to take this opportunity today to put into the record our assessment of the dimensions of this problem and of the damage caused by past inaction of the Administration. Since the President has recently directed the Secretary of the Treasury to work with the Congress on a mechanism to end mixed credit practices once and for all, we would also like to comment on the Administration's war chest proposal as well as the recent legislative proposals generated within the Congress.

There is no place inside the government or outside of it where one can find a conclusive statement of what proportion of current official export finance involves mixed credits. We do know that it is on the rise.

Official data do record an increase in the use of mixed credits. Mixed credit offers by foreign governments amounted to $3.2 billion in 1982. This figure represents a 50% increase over the amount reported in 1980. Two years later, in 1984, there was a doubling in the value of reported offers -- $6.495 billion in mixed credit support. The most recent data available show no decline -- with a reported $3.5 billion in mixed credit support for the 6 months of 1985.

Most officials in the U.S. government familiar with these data and the method of aggregating them would concede that the figures understate the problem.

O.E.C.D. data also show that more countries are getting into mixed credits. Only a handful of developed countries offered these subsidies in 1980. Presently, there are close to twenty countries, including Argentina and Brazil, indulging in this practice. The number of recipient countries, however, has not increased because of the recent debt crises and the targetting of mixed credit offers toward the most dynamic and credit-worthy markets.

While the increased use of mixed credits is clearly suggested by these data, the cost of this practice to the U.S. and to our international competitiveness is not easily documented. More reliable data and an improved O.E.C.D. reporting system could more accurately specify the amount of lost export sales. However, a list of lost sales could not tell you what is lost in terms of overseas markets, follow-on business, U.S. business transferred to foreign subsidiaries, technological leadership and the strength of our industrial base. Because mixed credit subsidies are not associated in this country as they are by our competitors with levels of domestic employment, we cannot easily calculate the cost of these subsidies in terms of lost jobs --particularly in such export dependent sectors as power generation equipment, transportation systems, telecommunications products, and heavy machinery.

Last year our membership concluded, due to the dirth of information, that we must try to measure the impact of mixed credits on our member companies. A survey subsequently sent to our membership sought answers to several questions: how many of our member companies had confronted mixed credit competition; how important the business involving mixed credits was to the company's competitiveness; if they went to our government for support; and, if official U.S. support was unavailable, did they try to source the business from overseas.

Briefly, the findings of the CEE survey (with 20 of our companies responding) showed:

* mixed credits was a very important competitive issue for 75% of the respondants.
* more than one-half of all respondants did not even try to get official support to meet a foreign mixed credit offer. U.S. programs were perceived either as unavailable or uncompetitive.
* more than 90% of the companies not requesting U.S. assistance tried to supply goods from overseas where competitive mixed credit support was available.
* during a 20-month period CEE companies tried to get foreign mixed credit support for 28 separate overseas projects involving approximately $7 billion.

Mixed credit activity has obviously contributed to U.S. unemployment, with many jobs being transferred abroad. Considering the relatively small number of U.S. exporters involved in the CEE survey, these subsidies have also had a substantial impact on our country's merchandise trade deficit. The survey speaks to two issues of particular relevance to this hearing:

1. Mixed credits are beginning to displace more conventional forms of official export finance while responsible government agencies are not only ignoring the changing characteristics of international competition but ignoring their mandate to respond to mixed credits as well. U.S. exports have suffered as a result.

The intent of the Congress to establish a credible defensive mixed credit program has obviously not been realized. The Administration's efforts have done little to keep U.S. exporters alive in the mixed credit war. Since the beginning of 1984 Eximbank has stood behind U.S. exporters in eleven mixed credit cases. These cases were selected by a set of narrow criteria designed to ensure an official system of limited responsiveness. U.S.A.I.D. participated on two occasions. The U.S. government has actually extended credit in two instances, committing approximately $52 million. During that same period of time 667 mixed credit cases were reported to the OECD with a total value of $10 billion. Admittedly, these notifications somewhat overstate the number of commercially focused mixed credit. The feeble nature of the U.S. mixed credit program remains obvious.

The President's war chest proposal signals a change from the indifference the Administration has shown U.S. companies faced with mixed credits competition. The action last week by the Administration to deal aggressively with six mixed credit cases (although the specifics are not known) also seems to indicate a new resolve.

2. As mixed credits become an increasingly aggressive weapon for our trading partners to capture certain industrial markets, multilateral rules governing trade finance become superfluous. If an open trading system is to be more than a dream, mixed credits must become an action priority.

When the Congress under Senator Heinz's leadership renewed the Eximbank Charter in 1983 it clearly expressed its intention to negotiate an end to mixed credit subsidies. Toward that end, Senator Heinz authored legislation directing the Export-Import Bank and U.S.A.I.D. to establish a mixed credit program to assist U.S. exporters facing mixed credit competition. The failure of the administration to effectively implement this program has brought our government to a crisis in export credit negotiations.

The critical need to reestablish international rules which effectively control predatory financing and help sustain a reasonably open international trading system has now come to the attention of the President. For the first time the Administration is giving the mixed credit problem the priority it deserves in calling for the establishment of a $300 million war chest. The fund is conceived primarily as a negotiating tool, an offensive weapon to end permanently mixed credit abuses. CEE is pleased by this new initiative and has always shared its goal.

CEE does have a number of concerns it feels compelled to express as a number of mixed credit proposals are considered by the Congress:

1. CEE regards the proposed fund as an important negotiating tool. It must be used aggressively to maximize the strength of our chief negotiator, the Secretary of the Treasury.

2. Because of the extensive use of mixed credit subsidies (documented above), we could not support any proposal which did not offer U.S. companies faced with mixed credit competition the prospect of assistance from their government. Our mixed credit programs under the current statutes should be enhanced rather than be terminated, as they would in the Administration's bill.

3. Besides assuring our exporters the support they need in dealing with current competitive pressure, the strengthening of the existing defensive program is critical to the success of any war chest. The programs in Eximbank and U.S.A.I.D. strengthen the U.S. government's negotiating position through added flexibility. Similarly, an offensive program requires accurate and timely market information. The market intelligence Treasury needs for targetting war chest activities depends upon private sector cooperation, which will be available only if U.S. companies are assured an effective retaliatory program. Otherwise, the companies may be forced to source certain sales from overseas.

4. The legislation establishing the war chest fund should in no way erode the traditional authority of the Eximbank or divert resources from the Bank's direct credit authority.

5. Language should be written into any war chest bill so that Eximbank maintains its current statutory authority to extend mixed credits out of its own resources.

6. Legislation must make it clear that the war chest is supported by new money. This is important to Eximbank's institutional integrity to an effective trade policy, and to a truly enhanced negotiating posture.

7. Under no circumstances should A.I.D.'s ability to participate in a mixed credit response be diminished. It is important that this committee's efforts to assure AID involvement in responding to mixed credits continue. In fact, a reevaluation of U.S.A.I.D. operations as they compare to those of its sister institutions overseas may be in order if a long run solution to mixed credits is to be achieved.

CEE and its members are pleased with the commitment and the energy this body has given to resolving the mixed credit problem. It seems that others in Congress are now recognizing the devasting effects these subsidies have had on U.S. jobs and our nation's international competitiveness. Developments in the Congress and now in the Administration offer hope for a legislative package that would bring decisive action on mixed credit abuses. With the committment of the President and the constructive proposals under consideration here there is for the first time the basis for a consensus for positive and expeditious legislative action on this issue.

Thank you.

Senator HEINZ. Thank you very much, Ms. Harsanyi.

Mr. Hollinshead.

STATEMENT OF WARREN HOLLINSHEAD, TREASURER-INTERNATIONAL, WESTINGHOUSE ELECTRIC CORP., ON BEHALF OF THE NATIONAL FOREIGN TRADE COUNCIL

Mr. HOLLINSHEAD. Thank you, Mr. Chairman. I have already transmitted a written statement to the subcommittee but I will paraphrase some of the points.

Senator HEINZ. Very well. Without objection, your entire statement will be made a part of the record.

Mr. HOLLINSHEAD. Thank you.

My name is Warren Hollinshead. I'm treasurer-international for Westinghouse Electric Corp., but I'm appearing here today on behalf of the National Foreign Trade Council's [NFTC] export finance committee and, as you know, Mr. Chairman, the NFTC is composed of over 500 companies in the United States, including most of the major exporting companies of the country.

My primary purpose in testifying today is to present the council's views to the Senate on the war chest proposal and its relationship to the current statute, but I first want to commend you in particular, Senator Heinz, for your support and leadership on this issue of mixed credits over the past years. It was almost 6 years ago that you sponsored the first war chest bill. It would have been a lot better for our exporting industry of this country if the administration and everybody else had supported you at that point in time and we would have avoided some of the lost export sales that have happened to exporters during the intervening time period. So we thank you in particular for your leadership and support on this issue.

I have certain substantive recommendations on the legislation I want to make but I'll make some broad observations before I start, or I'd like to starting with something that goes back over 30 years ago when I was in college studying political science. One of the fundamental functions of Government I was told was to support American citizens, American companies from predatory practices of foreign countries whether it be in war or whether it be in trade and other activities, and I submit to you and the subcommittee that that has not been the support that American exporters have received.

NEGOTIATIONS HAVE LED TO LOST MARKETS

We've been told to trust markets which will move the exchange rates in our favor so that we can export more. We've been told to trust the negotiating processing for an OECD agreement and what's been the result? The result has been in effect, that mixed credits have been on the increase, rather than the decrease, in the last few years.

So we welcome the attention that the administration is giving to this problem and your support of that particular piece of legislation. We have had difficulty in obtaining support from the Government in the past and particularly the Eximbank and other agencies, and we can cite particular examples of that that would take up all the time the subcommittee would like to hear in terms of transactions where we have had to bring into a consortium type of arrangement foreign sources of supply rather than using products that we could have produced in our U.S. factories, and that has meant for the United States lost jobs, lost profits, and lost tax revenues.

It's bad enough to lose a particular export order, particularly when they're large items, for any exporting company, but it's even more unfortunate when the loss is of market share and in some of these cases where because of lack of support of the Eximbank or other agencies of the Government we have had to bring in foreign sources of supply. It has meant that for the first time we have introduced into that foreign country a competitor and once that competitor is into that foreign country it's got a foothold and that means the beginning of the loss of market share for American exporters.

So we believe that the United States needs to show some muscle and we need a strong credible mixed-credits program of our own, one which would would self-destruct once other countries have abandoned theirs. I think that's a key principle on which we all agree with the administration.

So now let me move on to some specific points about the legislation and the first one I'd like to make is we are concerned, as I think I've heard some concern from the subcommittee this morning, that the administration's proposed legislation is limited to a duration of 2 years. In effect, that telegraphs our punch in advance. The French, the Italians, and Belgians and others have been doing mixed-credits for many, many years and they're simply going to wait us out if the legislation is already specified as having a duration of 2 years.

In fact, the Economist magazine just last week labeled the war chest proposal by the administration as another paper tiger. In view of the lack of support by the administration in the past of the export industry, the Economist thought this was not one which had much strength and lasting power to it. We hope that's not the case.

We also believe that the amount of $300 million is too small to be credible. A $300 million export mixed-credits program will support the level of exports that Bill Draper was talking about, but that's a fairly low level of exports compared to the $220 billion that this country exports every year and it's a small portion of what you, Senator Heinz, have proposed in the past where we were talking about mixed-credit legislation of possibly $1 billion or even as much as $2 billion in your proposals of years past.

Just to calibrate the committee, other countries have significantly higher mixed-credit programs. The United Kindom recently budgeted $784 million in 1 year. Canada is talking about a $300 million program. And of course, the exports in terms of value from those countries are much lower than the exports are from the United States.

The third point I'd like to make is that we feel it is important to preserve the statutory authority given to Eximbank and AID by Congress in 1983 to provide mixed credits. The administration's proposal would eliminate that authority and replace it with a new facility set up in the Department of the Treasury. We would recommend that the legislative history state that the proposed war chest bill should not reduce the Eximbank direct credit budget—that is the budget now proposed at $1.8 billion—nor should it eliminate the authority given to Exim and AID by Congress under that 1983 statute to provide mixed-credits themselves, if needed.

NEED FOR INTERAGENCY INVOLVEMENT

Fourth, we have concerns as to whether the U.S. Treasury Department alone is the most appropriate agency of the Government to administer the war chest program. We really think that there should be a coalition of agencies and involvement by AID by the U.S. Trade Representative's Office, the Department of Commerce should be involved, because we think they bring some understanding of international export markets and the trading systems of other countries and a willingness to deal with the mixed-credits program.

We really question whether the U.S. Treasury has the right mentality in this regard. As a treasurer myself, I think I can speak to that. Treasurers like to control things and keep things back. We're not often as aggressive as maybe some of the marketing people would be, and that's why we have some concern with that particular agency taking the lead. Though clearly they would have an important role to play.

Senator **Heinz**. Treasurers are somewhere between tight-fisted and stingy. [Laughter.]

Mr. **Hollinshead**. With green eyeshade to boot, and sometimes you can't see through those green eyeshades very far. We think we need an aggressive mentality.

We want to avoid that in the administration of this program if we can. So we can get through and reach the objective, which is to hit hard and hit quickly enough, so we can do away with the practice of mixed credits.

The fifth point I wanted to make is regardless of whether the U.S. Treasury, or Eximbank, or even AID were to be the administrator of the program, the U.S. exporter needs to have an agency that can act quickly. There will be occasions when the exporter needs a commitment on the availability of mixed-credit funds, so that an exporter order can be obtained through a one-on-one negotiation rather than a public tender. This is a practice that other countries have used and have used so effectively at times that American exporters never even hear about a potential piece of business, and if we're going to use this aggressively, we need the same kind of support from whoever does administer the program.

ONE-STOP SHOPPING

In addition, we want to—what we would call one-stop shopping. We do not want to have to go to the Eximbank or the U.S. Treasury, we want one institution that we, as exporters can deal with, and we would recommend that that agency be the Eximbank, because quite frankly, we're familiar with the Eximbank. We're familiar with the personnel. We're familiar with the processes, the people, so that that institution—or that agency would be the most favorable to us.

The sixth point is that if the mixed credits are to be used in a proactive, preemptive kind of manner, then exporters need a process whereby they can obtain a preliminary commitment for mixed credit funding prior to the exporter making a bid in a public tender process.

We are assuming, Mr. Chairman, that the administration's war chest program would not only be a first-strike preemptive kind of program but also allow the matching of mixed credits which has been available to us over the past few years.

The last point is that if the mixed-credit program is going to be effective, then we need a clear direction to the Eximbank that in applying the war chest program, the Eximbank's competiveness mandate ought to be viewed as its principal mandate rather than reasonable assurance of repayment. We, along with other exporters, thought that had been made clear to the Bank at the time of the charter renewal and yet constantly we are still dealing with the mentality in the Bank that the competitiveness mandate is a secondary mandate to reasonableness of repayment.

I think, Mr. Chairman, just to conclude my remarks, you've referred earlier to the speech several years ago of Deputy Secretary McNamar, as the United States having deep pockets. We in the exporting community heard that speech. We were encouraged by it, and I guess I would have to say that in view of the lack of support by the administration over the last few years, that deep pocket must have had a hole in it, because we haven't seen much coming from that deep pocket in terms of support, and therefore, we do welcome this piece of legislation as real support by the administration for solving a very difficult program.

Thank you.

[The complete prepared statement follows:]

STATEMENT OF WARREN H. HOLLINSHEAD, CHAIRMAN,
EXPORT FINANCE COMMITTEE - NATIONAL FOREIGN TRADE COUNCIL
BEFORE THE SUBCOMMITTEE OF INTERNATIONAL FINANCE AND MONETARY POLICY
SENATE BANKING COMMITTEE

OCTOBER 30, 1985

My name is Warren H. Hollinshead. I am Treasurer-International for Westinghouse Electric Corporation and am appearing here today on behalf of the National Foreign Trade Council's Export Finance Committee of which I am Chairman. The National Foreign Trade Council is composed of over 500 U.S. corporations engaged in foreign trade and investment, including most of the major exporting companies of the Country.

My primary purpose in testifying today is to present the Council's views to the Senate on the War Chest proposal and its relationship to the current statute regarding mixed credits. First, I would like to commend Senator Heinz for his unrelenting leadership on this issue. Almost six years have passed since Senator Heinz sponsored the first War Chest proposal (S.2339) aimed at countering the predatory export credit practices of our trading partners. Following that proposal (in the 96th Congress), there were two subsequent War Chest bills (S. 868 and S.2600) behind which this Subcommittee's Chairman was the prime mover. Now, the necessity for such a fund has become clear to the Administration. We appreciate the energy of this body, and particularly of its chairman, in creating the current momentum with the prospect of a negotiated settlement on mixed credits.

Before I come to the substantive recommendations on S.1763 (the War Chest bill), I would like to make some broad observations on international trade and mixed credits.

Thirty years ago I was an undergraduate at Amherst College majoring in political science. One of the concepts I learned was that it was a fundamental duty of government to protect its citizens - not only against war, but also against the predatory practices of foreign governments. Unfortunately over the last five to ten years the U.S. government has not been very successful in protecting the U.S. export community from unfair trading practices of other industrial countries. Mixed credits are one key example.

In the midst of this country's largest-ever foreign trade deficit, we have been told to sit back and let market forces lower the exchange rate so that we can start exporting again. In the midst of losing market share to foreign competitors in country after country we are told to be patient and let the U.S. government's negotiating process with other OECD countries bring us relief.

And what has been the result? Despite the sophisticated effort that has gone into the OECD negotiating process by our government representatives, mixed credits are on the increase, not decrease. It is naive for us to think that the United States can stop the use of mixed credits simply through the negotiating process. The United States has lost much of the international power we once had to force other countries to accept liberal international trading and financing practices. The reason the French have been a leader in the use of mixed credits is that they perceive it to be in their best national interests and they have gotten away with it.

For those of us in industry confronting the aggressive competition over the last several years, we welcome the attention that the Administration is finally giving to this problem. We appreciate the initiative taken by Congress and particularly by Chairman Heinz and this Subcommittee by providing for the authority for the mixed credits program contained in the 1983 Trade Development and Enhancement Act. That Act now needs to be substantially improved to make a difference. It is unfortunate that so many major exporting opportunities have been lost as a result of the Administration's unwillingness to turn Congress's mandate into a truly aggressive, retaliatory program.

At times over the last few years, the support from the U.S. Exim Bank and other U.S. governmental agencies involved with foreign trade has been such that American exporters have been forced to turn to foreign sources of supply in order to compete in third world markets. For example, in a transaction in the Middle East, the lack of support from the Exim Bank forced a U.S. exporter to source millions of dollars worth of products from factories in Japan, Belgium, Spain, etc., rather than use product from its own factories in the United States. The sole reason for going to foreign sources of supply? - because those countries were willing to grant financial assistance to the Middle Eastern country above and beyond that which the United States Government was willing to grant. That foreign sourcing of equipment means lost jobs, lost profits, and lost tax revenues for the United States. If foreign sourcing continues long enough the United States could also lose its technological lead. While this particular transaction did not involve mixed credits, it is illustrative of the lack of support U.S. exporters have experienced.

AVAILABLE

In this case it was a particularly agonizing situation for the U.S. exporter because over a number of years that exporter had achieved a significant market share in that Middle Eastern country for the equipment which it was now forced to source from Japan and Europe. Losing a major export sale is bad enough. But when a company is forced to take action which could permanently and adversely affect its market share, that is even more serious. Mr. Chairman, I submit that textbook economics alone will not do the job, when markets are intentionally distorted by governments. You need hard-line political measures to be able to reduce our $120 billion trade deficit. The United States government cannot continue to do "business as usual" when this country is running its worst trade deficits in history.

The point being made is that negotiations on the OECD consensus agreements are not enough. The United States needs to show some muscle - we need a strong, credible mixed credits program of our own, one which would self-destruct once other countries abandon theirs, but a mixed credits program which demonstrates clearly that the United States is no longer going to be pushed around in international trade. We see the proposed War Chest legislation as important not only because it addresses the mixed credits problem directly, but because we hope that it indicates a new attitude of support by the Administration for the U.S. exporter. The actions announced last week by Eximbank to counter foreign mixed credits activity also indicate a new commitment within the Administration.

With those kinds of introductory comments, let me now address myself specifically to the legislation being proposed. We agree with the objective which is to ultimately reach a practical, enforceable OECD agreement which will eliminate or severely reduce the use of mixed credits in international trade.

Notwithstanding our agreement on the objectives, however, we have certain comments as to whether the provisions of the proposed legislation are a practical method for reaching the agreed-upon objectives.

1) We are concerned that the Administration's proposed legislation is limited to a duration of two years. That telegraphs our punch in advance. The French, the Italians, and the Belgians have been doing mixed credits for twenty years or more already. If the program is limited to a two-year duration, they will simply wait us out. We suggest eliminating the two-year limitation on the program, but retaining a Presidential power to recommend to the Congress to terminate the program once the objectives have been reached. We need to have a mixed credits program which is perceived as hard-hitting and a continuing program which will go beyond some type of early, apparent success in the OECD negotiation process.

2) We believe that the amount of $300 million is too small to be credible. A $300 million mixed credits program will only support exports in the range of $1 to $1.2 billion dollars compared to a total of $220 billion of exports from the United States. There are proposals in the House establishing a fund of $500 million. This is a realistic amount although less than the $1 billion and $2 billion War Chests in the Heinz proposals of 1980, 1981 and 1982.

   To calibrate you as to the mixed credits programs of other countries, the U.K. recently budgeted $784 million in a single year. The Canadians have talked about establishing a mixed credits program which would reach $300 million in the near future. These amounts are for nations whose volume of export trade is much less than that of the United States. We would strongly urge that the Congress consider legislation which would raise the $300 million level to the $500 million level.

3) We feel it is important to preserve the statuatory authority given to Exim Bank and AID by Congress in 1983 to provide mixed credits. The Administration's proposal would eliminate that authority and replace it with a new facility set up in the Department of the Treasury. We recommend that the legislative history states that the proposed War Chest Bill should not reduce the Exim direct credit budget nor should it eliminate the authority given to Exim and AID by Congress under the current statute to provide mixed credits themselves if needed.

4) We have concerns as to whether the U.S. Treasury Department alone is the most appropriate agency of the government to administer the War Chest Program. Nor do we think that the U.S. Treasury and the Export Import Bank together would be sufficient for this process. We think that U.S. AID, the U.S.Trade Representative's office and the U.S. Department of Commerce should have their input. If this War Chest Program is to work, we need a mentality which is based on solid understanding of the international export markets, the trading systems of other countries and a willingness to deal with the program with a comprehensive U.S. government strategy. We question whether the U.S. Treasury has the right mentality in this regard. As a treasurer myself, I can speak to that. Treasurers are concerned about control, limiting things, making sure everything is fully justified. If this War Chest Program is to work, we need a more market-oriented mentality here. While we certainly understand that the U.S. Treasury would have an important role to play in the overall interagency process, we would recommend that the role of an interagency system be maintained under the leadership of Eximbank.

5) Regardless of whether the U.S. Treasury, Exim Bank or even AID were to be the administrator of the program, the U.S. exporter needs to have an agency that can act quickly. To ensure maximum effectiveness of the program, there will be occasions when the exporter needs a commitment on the availability of mixed credit funds so that an export order can be obtained through a one-on-one negotiation rather than a public tender. That is often the way other countries have used mixed credits in the past - at times U.S. exporters do not even see the business being offered for international quotation because the transaction has been previously and privately arranged with the assistance of a mixed credits grant.

   In addition to quick response time, U.S. exporters should have one-stop shopping in utilizing the mixed credits program. In other words, the exporter should not have to deal with several agencies of the government in order to obtain approval for mixed credits funding. Again, we recommend that that agency be the Eximbank.

6) If the mixed credit funds are to be used in a proactive, preemptive kind of manner, then exporters need a process whereby they can obtain a preliminary commitment for mixed credit funding prior to the exporter making a bid in a public tender process. This assumes, as we believe it is the intent of the legislation, that the new mixed credits program would not only permit the U.S. exporter to match mixed credits being offered by another country but to also be able to obtain mixed credit support on a first strike basis.

7) If the mixed credits program is going to be effective, then we need a clear direction to the Exim Bank that in applying the War Chest Program the Exim "competitiveness" mandate ought to be viewed as its principal mandate in order to prevent valid cases from being trapped in a narrow interpretation of the Bank's requirement of "reasonable assurance of repayment." The exporting community felt that Congress had made this intention clear to Exim Bank at the time of the last renewal of the Exim charter. Notwithstanding what was thought to be the clear intent of Congress, Exim still maintains that its charter requires it to give priority to reasonableness of repayment as compared to the other Congressional mandate of supporting U.S. export activity.

Thank you for receiving my testimony today and I would be happy to answer any questions the committee may have.

Senator HEINZ. Mr. Hollinshead, thank you very much.

Mr. Trammell.

STATEMENT OF WILLIAM D. TRAMMELL, TREASURER, THE FLUOR CORP., ON BEHALF OF THE INTERNATIONAL ENGINEERING AND CONSTRUCTION INDUSTRIES COUNCIL

Mr. TRAMMELL. Mr. Chairman and members of the committee, I am Bill Trammell, treasurer of the Fluor Corp., and guilty of parsimony, as charged. [Laughter.]

I work out of Irvine, CA, and I'm pleased to have this opportunity to appear before you on behalf of the International Engineering and Construction Industries Council [IECIC]. It is an umbrella organization representing the Nation's architects, engineers, and contractors which engage in international operations.

Senator HEINZ. Mr. Trammell, I am delighted that you are representing that organization, and let me just note that your entire statement and attachments will be placed in the record in their entirety.

Mr. TRAMMELL. Thank you.

IECIC today represents directly some 4 million architectural, engineering, and construction employees in the United States.

In 1982, the estimated total contribution of our industry to the gross national product [GNP] was approximately $250 billion or over 7.5 percent of the total. In June 1984, IECIC engaged Price Waterhouse to undertake a study defining and measuring the benefits to the U.S. economy of our exports. This study shows that the architectural, engineering, and construction [AEC] industry had export revenues in 1983 of approximately $19.6 billion, of which $4.8 billion represented our direct sales.

DROP OF $2 BILLION IN EXPORT REVENUES IN 1 YEAR

Total 1983 export revenues were more than $2 billion less than 1982, and our direct sales had decreased by $800 million. The largest reduction in 1983, however, took place in the material and equipment sector which was supported or is supported by our activities, though the decline was $900 million.

I appreciate being asked to meet with you today to present the views of our industry on implementation of a U.S. mixed-credits program.

You may recall, Mr. Chairman, that I addressed the subcommittee in September 1982 and again in March 1983 on the critical role of export financing. We were gratified that most of our recommendations at that time were subsequently adopted into law, and we recognize the very real contribution made by this subcommittee in providing U.S. exporters with essential financing tools for meeting our foreign competition. Mr. Chairman, when I appeared before you in 1982 and 1983, I stressed the need for a U.S. mixed-credit program to provide our companies with the same tools being offered to our competitors by their governments. I emphasized that our industry condemned the practice of giving an artificial competitive advantage to companies through mixed-credit offers, but cautioned that U.S. firms should not be penalized as a result while multilateral negotiations proceeded.

As a result, we recommended the establishment of a mixed-credit financial arrangement between the U.S. Eximbank and the Agency for International Development to provide matching similar programs to offset our competition. As you are aware, such tied-aid programs were included as part of the Export-Import Bank's charter renewal 2 years ago in the Trade and Development Enhancement Act of 1983.

Today our industry continues to be impacted severely by our continued inability to match foreign mixed-credit financing proposals.

A recent article published in the Euromoney Trade Finance Report highlights precisely how common mixed credits have become in the project financing sector.

I won't try to go through all the examples in that, but let's look at one country, Malaysia. Australia, Canada, France, Italy, and Great Britain have all offered various forms of subsidized financing in Malaysia. Japan alone is reported to have committed over $1 billion in soft credit deals to Malaysia over the last decade.

Senator HEINZ. Mr. Trammell, let me interrupt you. I'm sorry to interrupt you. There is a vote on. I have about 5 minutes to get over to the floor and vote. I am going to recess the hearing, and I will be back in about 10 minutes, which is the round-trip record time.

So I apologize for interrupting you, but the hearing will be in recess for approximately 10 minutes.

[Recess.]

Senator HEINZ. Mr. Trammell, as you were saying——

[Laughter.]

Mr. TRAMMELL. I think we were about to focus on foreign governments, and they appear to use mixed credits most often in areas that directly affect IECIC. That's transportation, power, communications, and other industrial projects. These are all sectors in which American engineering, construction, and architectural firms once really had a competitive edge, as a result of our technology and our managerial superiority.

We now find this competitive advantage is shrinking, and that our position is being severely challenged because of the boost being given to our foreign competitors through their respective governments' mixed-credit programs.

Furthermore, these mixed credits are being focused on many of the developing countries which American exporters see as the fastest growing markets for their services, equipment and goods.

IECIC believes that the 1983 legislation provides a good framework for the development of an effective American mixed-credit program. This program can enhance the competitiveness of U.S. exporters, as well as provide an effective tool for our use in negotiations in the OECD. Nevertheless, 1½ years after the enactment, we just have to admit that we still have a long way to go to make the program work.

IECIC ENCOURAGED BY PRESENT LEGISLATION

We are extremely encouraged that the major question of funding has been addressed in part in the fiscal year 1986–87 foreign assistance authorization bill, which earmarks $50 million each year from the economic support funds to support AID's participation. We regard the administration's proposal for establishing a new $300 million mixed-credit war chest as another successful element which will enhance our ability to compete.

Mr. Chairman, our industry is extremely encouraged by the announcement on September 23, 1985, of President Reagan's trade policy action plan. We're particularly gratified to see our efforts, yours and ours, were specifically recognized by the President in his war chest.

Mixed credits are now acknowledged at the highest level of our Government as a principal threat to U.S. exporters, and it is recognized that this requires swift and drastic action. The White House presented it best when it described the President's intent to—and let me quote here:

> * * * promote U.S. exports through submitting legislation authorizing and appropriating approximately $300 million in grant funds to enable the administration to offer $1 billion in mixed credit loans to targeted buyers.

This program is designed to enable U.S. exporters to compete effectively in third country markets until we can eliminate predatory mixed credit competition through negotiations.

Therefore, we enthusiastically agree, there are two twin goals here: Export promotion and strengthening our negotiating hand. These goals should be a part of one strategy as this Nation comes to grips with its serious trade problems.

IECIC feels strongly that any legislative authority must complement, not replace, the existing authority of Exim and AID to participate in mixed-credit transactions.

IECIC believes that coordination of mixed-credit programs should be sufficiently broad to allow participation by agencies responsible for the promotion of U.S. commercial interests and multilateral negotiations.

In previous statements before this committee, IECIC has emphasized the importance of a short response time for mixed-credit applications. It is not unusual for our competitors to receive preliminary commitments from their own national financing agencies within 24 hours. This timing may be difficult to obtain if the program is not managed through established channels.

IECIC feels strongly that the grant program of any mixed-credit program must not be funded out of existing Eximbank authority. We support the use of AID foreign assistance funds for mixed credits as authorized in fiscal year 1986–87. The program was not intended to divert funding from AID's other programs for basic human needs. Indeed, it was specifically set up 34 years ago to support activities considered inappropriate for funding under other AID accounts.

IECIC believes that AID has an important role to play in this issue. Mixed credits can simultaneously serve both development objectives and U.S. commercial interests.

Once again, Mr. Chairman, it's a great pleasure for me to be addressing you again this morning, and I am prepared to answer any questions that you or the members of the subcommittee may have.

Thank you.

[The complete prepared statement follows:]

William D. Trammell
Treasurer
Fluor Corporation

On Behalf of the
International Engineering and Construction Industries Council (IECIC)

Statement for the Record
Subcommittee on International Finance & Monetary Policy
Committee on Banking, Housing & Urban Affairs
United States Senate

October 30, 1985

Mr. Chairman and Members of the Committee:

I am Bill Trammell, Treasurer of the Fluor Corporation in Irvine, California. I am pleased to have this opportunity to appear before you this morning on behalf of the International Engineering and Construction Industries Council (IECIC), an umbrella organization representing the nation's architects, engineers, and contractors engaged in international operations.

IECIC was established in 1967 when our industry recognized that serious problems were eroding the U.S. competitive position in architectural, engineering and construction markets overseas. We believed that these problems and mutual interests could be dealt with most effectively under the one organization, thereby providing a collective contact with the Congress, federal agencies, financial institutions, and the private sector concerned with development projects abroad.

IECIC is composed of the four major associations involved in international engineering and construction work: the American Consulting Engineers Council

(ACEC), the professional engineering society representing 4,500 firms and 130,000 members; the American Institute of Architects (AIA) representing 41,000 professional architects; the Associated General Contractors of America (AGC) composed of some 8,500 American general contracting firms and 32,000 associated firms involved in heavy construction projects such as dams, large commercial building and highways; and the National Constructors Association (NCA) consisting of 40 of the largest U.S. firms with nearly half a million employees engaged in the design, engineering and construction of major industrial facilities throughout the world. These contracts include "turnkey" projects such as oil refineries, steel mills, petrochemical and chemical plants.

IECIC today represents directly some four million architectural, engineering, and construction (AEC) employees in the United States. In 1982 the estimated total contribution of our industry to the U.S. GNP was approximately $250 billion, or over 7.5% of the total. This figure is higher than the contribution of other major industries; for example, petrochemical is 6%, banking is 5% and transportation and communications 6.5%. Even so, the AEC industry contribution in 1982 was much lower than the previous 20-year average of between 9 and 10%. IECIC industries are a vital "opening wedge" in expanding American exports of goods, products, machinery and diverse services.

In June 1984, IECIC engaged Price Waterhouse to undertake a study defining and measuring the benefits to the U.S. economy of AEC exports. The study, which was completed earlier this year, shows that the AEC industry had export revenues in 1983 of approximately $19.6 billion, of which $4.8 billion represents direct U.S. revenues. An additional $6.1 billion in domestic revenues was generated as result of these exports. Total 1983 export revenues were more than $2 billion lower than in 1982, and U.S. export revenues decreased by $800 million from the previous year. The largest reduction in 1983 took place in the material and equipment sector which declined by $900 million from the 1982 level.

IECIC is satisfied with the results of the study which demonstrate firmly that from the standpoint of the U.S. economy, the AEC export industry in 1983 had a value of $11 billion, employed 261,000 U.S. personnel and, in addition, generated over $1 billion in federal, corporate, and personal income taxes.

I appreciate being asked to meet with you today to present the views of the AEC industry on implementation of a U.S. mixed credits program. You may recall, Mr. Chairman, that I addressed this Subcommittee in September, 1982 and again in March, 1983 on the crucial role of export financing in the award of AEC contracts worldwide. On both occasions I appeared in my capacity as Chairman of the National Constructors Association Subcommittee on Export Financing during your consideration of legislation to renew the charter of the Export-Import Bank. We were gratified that most of our recommendations at that time were subsequently adopted into law, and we recognize the very real contribution made by this Subcommittee in providing U.S. exporters with essential financing tools for meeting our foreign competition.

My earlier statements provided specific examples of the critical role of export financing not only in the award of projects overseas but also in the ability of AEC firms to carry along the export of additional U.S. goods and services with them. Our case studies estimated the amount of equipment and materials procured from U.S. manufacturers in each project award, as well as the number of U.S. jobs associated with that procurement. We would of course be pleased to make copies of these earlier statements available once again to the Subcommittee if their findings would be useful to you.

Mr. Chairman, when I appeared before you in 1982 and 1983, I stressed the need for a U.S. mixed credits program to provide our companies with the same tools being offered to our competitors by their own governments. I emphasized that our industry condemned the practice of giving an artificial competitive advantage to companies by their national governments through mixed credit offers, but cautioned that U.S. firms should not be penalized as a result while multilateral negotiations to curtail their use proceeded. As a result, we recommended the establishment of a mixed credit financial arrangement between the Export-Import Bank and the Agency for International Development (AID) for matching similar programs used by our competitors. As you are aware, such "tied aid" programs were included as part of the Export-Import Bank's charter renewal two years ago in the Trade and Development Enhancement Act of 1983.

Today, our industry continues to be impacted severely by our continued inability to match foreign mixed credit financing proposals.

A recent article published in Euromoney Trade Finance Report highlights precisely how common mixed credits have become in project financing packages. For example, Australia, France, Japan, Sweden, Switzerland, and Spain have all offered soft credit lines to the Peoples Republic of China. Spain was recently awarded a $500 million oil refinery contract in that country by providing a $300 million export credit combined with a soft loan of $200 million at an interest rate of 2% payable over 30 years with a 10-year grace period. Australia, Canada, France, Italy and Great Britain have all offered various forms of subsidized financing to Malaysia, and Japan alone is reported to have committed over 256 billion yen (over $1 billion) to Malaysia in soft credit deals over the past decade. Great Britain has earmarked 5% of its total mixed credit budget for Malaysia, stating that in that country mixed credits "make all the difference."

The Report notes further that both Thailand and Indonesia have become major recipients of mixed credit financing. Thailand's National Fertilizer Company and modernization of the Thai railway system have attracted soft funds from Japan's OECF and Germany's KFW. Belgium is reported to have offered a soft mixed credits package for busses to be supplied to Bangkok's mass transit system. Under its Directive 8 of 1984, Indonesia has declared that all but a few listed projects must be financed by not less than 25% soft credits with an interest rate of not more than 3.5%. Great Britain and West Germany have both supported projects under these arrangements. In addition to the countries cited above, Algeria, Botswana, The Cameroons, Pakistan, and Turkey together receive 3/4 of all identified mixed credit offers. The full October, 1985 article from Euromoney Trade Finance Report entitled "Mixed Credits: Winners, Losers and Users" is attached as an appendix to this statement.

IECIC has continued to testify on Capitol Hill whenever and wherever appropriate on the threat of mixed credits and the need for this Administration to implement its clear legislative mandate.

Foreign governments appear to use mixed credits most often for transportation, power, communications and other industrial projects. These are all sectors in which American engineering, construction and architectural firms once had a competitive advantage as a result of our technological and managerial superiority. We now find that this competitive advantage is rapidly shrinking, and that our position is being severely challenged because of the boost given to foreign companies through their respective government's mixed credit programs. Furthermore, these mixed credits are being focused on many developing countries which American exporters see as the fastest growing markets for their services, equipment, and goods.

IECIC believes that the 1983 legislation provides a good framework for the development of an effective American mixed credits program to enhance the competitiveness of U.S. exporters as well as to provide an effective tool for use by our negotiators at the OECD. The legislation is sufficiently broad to allow for several different approaches to accomplish the objective stated. Nevertheless, a year and a half after enactment we have to admit that we still have a long way to go to make this program work. We are extremely encouraged, however, that the major question of funding has been addressed in part in the FY 1986/1987 Foreign Assistance authorization bill which earmarks $50 million each year from the Economic Support Funds to support AID's participation in the mixed credits program. The AEC industry is enthusiastic about the potential that this new funding source offers for U.S. exporters, and looks forward to working closely with this Subcommittee to make sure it is used aggressively in countering foreign mixed credit offers where they impact U.S. industry most severely.

With regard to the Administration's proposal for establishing a new $300 million mixed credit "war chest," IECIC believes that the following elements are essential for the successful operation of a mixed credits program:

- Establishment of War Chest Fund

Mr. Chairman, the AEC industry was extremely encouraged by the announcement on September 23, 1985 of President Reagan's Trade Policy Action Plan. We are particularly gratified to see that our efforts - yours and ours - were specifically recognized by the President in his call for a $300 million "war chest" in response to the continued use of mixed credits by virtually all our major competitors around the globe. No longer merely a trade nuisance that can be handled through negotiations alone, mixed credits are now acknowledged at the highest levels of our government as a principal threat to U.S. exporters, requiring swift and drastic action.

As unveiled by President Reagan, the $300 million mixed credit war chest would serve several purposes, one of which would be to help U.S. companies maintain market shares overseas while negotiations proceed. We as an industry continue to support U.S. efforts to bring about an end to this predatory practice, and endorse the war chest as a much-needed tool for forcing other nations to take our resolve more seriously. At the same time, we recognize the value of such a fund in promoting the export of U.S. goods and services while negotiations continue. The White House presented it perhaps best when it described the President's intent to:

> "Promote U.S. exports through ... submitting legislation authorizing and appropriating approximately $300 million in grant funds to enable the Administration to offer $1 billion in mixed credit loans to targeted buyers. This program is designed to enable U.S. exporters to compete effectively in third country markets until we can eliminate predatory 'mixed credit competition through negotiations...."

We enthusiastically agree. The twin goals - export promotion and strengthening our negotiating hand - should be part of one strategy as this nation comes to grips with its serious trade problems.

- Exim/AID Programs

IECIC feels strongly that any new legislative authority must complement, not replace, the existing authority of Eximbank and AID to participate in mixed credit transactions.

Since the basic objective of the program is to assist U.S. exporters in competing effectively with foreign suppliers, it is important to clarify how exporters should deal with each institution and the roles Eximbank and AID should play in approving and funding a mixed credit on a particular transaction.

Since Eximbank has traditionally been the primary contact for the exporting community, it is likely to be requested by exporters to take the lead on most mixed credit transactions.

- Role of Various Agencies

IECIC believes that coordination of a federal mixed credits program should be sufficiently broad to allow participation by agencies responsible for both the promotion of U.S. commerical interests and multilateral negotiations. It is our opinion that these concerns would be best served if Eximbank were to play the pivotal role in the program's implementation, with such agencies as AID and the Treasury Department contributing to the process. IECIC believes further that no one agency or department should establish the criteria for awarding mixed credits, and that the business community should be included wherever possible on a continuing basis to provide advice on the program's operation.

- Responsive Program

In previous statements before this Subcommittee, IECIC has emphasized the importance of a short response time for mixed credit applications. It is not unusual for our competitors to receive preliminary commitments from their own national financing agencies within 24 hours, and our ability to respond effectively is often dependent upon our ability to respond quickly. H.R. 3296 introduced in the House by Representative Nancy Johnson would impose a 10-day deadline for responding to an exporter's request for a mixed credit, which we would welcome as a helpful and appropriate part of the program's implementation.

- Funding

This industry has been outspoken during the past year's budget battles in its support for an adequately funded direct credit program within Eximbank. We still face a fight in the appropriations process to defend the $1.8 billion in direct loan authority allotted in the FY 1986 federal budget, and would oppose any further attempts to reduce that level. Accordingly, IECIC feels strongly that the grant portion of any mixed credit program must not be funded out of existing Eximbank authority. The cause of U.S. international competitiveness is not furthered by any additional erosion of Eximbank's fighting power.

We support the use of foreign assistance funds for mixed credits as authorized in FY 1986/1987. This approach is consistent with the Trade and Development Enhancement Act of 1983 which directed AID to establish a mixed credit program using AID's Economic Support Funds (ESF). The program was not intended to divert funding from AID's other programs for basic human needs; indeed it was specifically set up 34 years ago to support activities considered inappropriate for funding under other AID accounts. Furthermore, a recent CRS study found that in FY 1985, almost 67% of total ESF funding was in the form of cash transfers, meaning that the recipient is under no obligation to purchase American goods and services. This is an important distinction - and one that is often lost in discussions about AID's participation in mixed credits.

IECIC believes that AID has an important role to play in this issue. Mixed credits can simultaneously serve both development objectives and U.S. commercial interests. We believe that this will help build vital public support and understanding for the foreign assistance programs of the United States.

Once again, Mr. Chairman, it is a great personal pleasure for me to be addressing you again this morning on behalf of IECIC, and I am of course prepared to answer any questions which you or Members of the Subcommittee may have.

Thank you.

Mixed credits: winners, losers and users

Euromoney Trade Finance Report
October, 1985

Who is guilty? Of what and where? James Ball looks at the minefield of mixed credits, soft credits and subsidies.

The French and the Japanese commit terrible crimes. They must, because everyone says they do. But no one can discover exactly what they have done wrong. They are aggressive, they say, they offer competitive finance, their governments and industries work closely together. But do they really cheat and break international agreements?

The argument is supposed to be about "mixed credits" – the blending of aid with export finance. On one side are those who say that they are an underhand way of lowering interest rates, to break the Consensus and snatch away business. On the other are those who contend that they are an efficient way of making aid go further.

But the real arguments are a lot more complicated and much wider. They are about competition and the scramble for the few big projects still around in the developing world. They are about finance and the ever more important rôle it plays in winning those projects. And they are about the ways that finance can be made more attractive not just through the injection of aid into export finance but through putting in subsidy in any number of ways, some "acceptable", some not.

Cynics (or realists) say that every way is acceptable. "It's a struggle for life," says Hervé Kauffmann of the French contractor, Bouygues. "Everybody cheats – the Japanese, the British, the French, the Germans – all cheat. The problem is they don't cheat in the same areas."

The issue is clouded further by the opaque and sometimes contradictory attitudes of some of the governments involved.

The least obscure attitudes are those of the USA and France. The Americans have traditionally been the strongest campaigners against mixed credits. Their attitude was unequivocally expressed in April when William Draper, president and chairman of Eximbank, protested against France's "continued and inappropriate use of aid funds to try to gain a competitive advantage in a commercial sale". The contract was for components for power stations in Thailand and the French bid was reported only six days before the final tender date, breaking the OECD's rules on notification (see box).

Draper, however, although "disturbed by the failure of the French to observe the rules", was more concerned with the general principle. "The French offer

What is a mixed credit?

The debate over mixed credits has been confused partly because few participants have made the definitions clear and partly because the definitions have changed. A mixed credit is one in which commercial credits are combined with aid funds.

According to the OECD's "Arrangement on Guidelines for Officially Supported Export Credits", which was established in 1978, "tied aid" credits (including mixed credits) with a grant element of up to 15 per cent had to be notified at least 10 days before commitment; notification at the time of the commitment was required for those with a grant element of between 15 and 25 per cent.

In July 1982 the arrangement was revised: the minimum grant element was raised to 20 per cent and notification was required for credits with a grant of between 20 and 25 per cent.

In April 1985 an OECD ministerial meeting agreed to raise the minimum element to 25 per cent, mainly in response to US pressure; further, 20 days' prior notification are now required for credits with a grant element of between 25 and 50 per cent. Another breakthrough at the last negotiations in July was to bring Japan's partially tied credits under surveillance.

These changes ensured increased "transparency" (in reporting offers) and "discipline" (making the mixed credit more expensive). Definitions, however, will continue to be a problem: after the July meeting fingers were pointed at Japan and Austria as countries which "will make life difficult when it comes to a definition of tied aid credits," says one negotiator.

Who are the takers?

China: Australia, Austria, France, Japan, Sweden and Switzerland all have soft credit lines out to China. Spain recently clinched a $500m contract to build an oil refinery by providing $300m of peseta export credits, themselves subsidised, together with a soft loan of $200m at 2 per cent over 30 years with 10 years' grace.

Indonesia: Under Directive 8 of 1984 Indonesia listed development projects which were open to international bidding and which were to be financed by export and soft credits. Projects not on the list can be financed only on certain conditions: the length of credit (including the grace period) must be no less than 25 years; the grace period must be no less than seven years; and the interest rate must not exceed 3.5 per cent. Both Britain and Germany have supported their exporters.

Malaysia: Australia, Canada, France, Italy, Japan and the UK offer various forms of subsidised finance. Over the last decade the Japanese alone have committed some Y256bn in 10 soft credit lines. British sources say that about 5 per cent of the UK's total mixed credit budget is earmarked for Malaysia; it recently initiated a mixed credit offer (preferring, however, to call it pre-matching), citing Malaysia as a market where mixed credits "make all the difference".

Thailand: Four recent projects have attracted attention because of the aid elements used to soften the credits. One of them, for the Thai Oil Refinery Project, was finally won by Japan's Chiyoda Engineering on price alone (leading to suspicion that this is another example of a Japanese company dumping and absorbing any losses itself). The National Fertiliser Company Scheme and the contract to modernise the railways have attracted funds respectively from Japan's OECF and Germany's KfW. The last contract, worth £400m ($620m), for buses for the Bangkok Mass Transit Authority was upset when the Belgians offered a soft package after other agencies had agreed informally that there would be no soft offers.

It is estimated that these countries, together with Algeria, Botswana, Cameroon, India, Pakistan and Turkey account for around three-quarters of all mixed credits. The common denominator among these 10 is that they are poorer middle income countries.

is a perfect example of the type of package we are trying to eliminate through current negotiations." "The United States considers trade motivated mixed credits 'wasteful, costly and ultimately futile,'" declared John Lange of the US Treasury's Office of Trade Finance to a House Committee last year.

Futile or not, the US last month announced a $300m "war-chest", accompanied by more harsh words about the French, the Japanese and macho imagery.

US bankers might share such opinions privately but publicly they remain agnostic. "These are government decisions," says Dennis Flannery, director of international project finance at First Boston. The present position is "healthy for the buyer" and he regards it as a banker's duty to encourage his clients to make the agencies compete. For his clients the priorities are, in order, the maximum in straight grant, the length of the credit (including the grace period and the maturity), the rate and, finally, the currency. The currency is becoming less important because it is now easier to swap into whatever is required.

> **Trade motivated mixed credits: "wasteful, costly and ultimately futile" John Lange, US Treasury.**

The French attitude is equally clear and self confident. They point out that the US is not a major exporting country relative to the size of the domestic economy and are sceptical about the "war-chest" (a fund which is earmarked to fight other countries' soft finance) but they are becoming increasingly impatient with what they see of the US style of negotiating.

For the French, the rules are the product of compromise, which they respect, but they feel increasingly annoyed that every concession they make to the USA is then treated as the basis for more concessions at the next meeting. "When you have a $160bn trade deficit," says an official of France's Direction des Relations Economiques Exterieurs (DREE), "you have to find a reason for it." He points to the total of OECD countries' mixed credits, now about $1bn annually, and compares that to the US deficit of $160bn.

That does not mean that the French attach no importance to mixed credits. They were, after all, the first to use them. Rather they see the issue in a completely different way: mixed credits are the way they give the bulk of their aid and the idea that they are just a way of winning business is, they say, laughable. "Mixed credits are a very expensive way of keeping employment going," says Henri-Gérôme Degrelle of DREE. "It would be idiotic to use them for industrial reasons."

> **"It would be idiotic to use mixed credits for industrial reasons" Degrelle, DREE.**

The French acknowledge the advantage of having so many protocols (low interest credit lines) available. But, says

Subsidy, by any other name...

The mixed credit debate often refers to other forms of subsidy, ranging from tied aid credits and parallel financing to straightforward financial dumping. In 1983 the OECD's Development Assistance Committee drew up "Guiding Principles for the Use of Aid in Association with Export Credits and Other Market Funds" to clarify associated financing, which includes mixed credits and parallel financing. The following are complications not covered by these guidelines.

The OECD guidelines institutionalise subsidies by fixing a matrix of interest rates that can be lower than the prevailing market rates. Although the difference between matrix and market rate can be easily calculated, the effective rates may be much lower if the financing institution has access to cheap funds. These can be obtained by tapping homeless money, using the domestic savings market or exempting funds from withholding taxes.

Outside the Consensus: Not all international trade is subject to the same agreement. Nuclear power plants, most aircraft (except the wide-bodied variety), ships and agricultural and military products are excluded. These exceptions go some way towards explaining the US attitude. As the French are quick to observe, the US is a relatively minor exporting country except for agricultural products (where it has recently been very aggressive) and of military hardware (which usually has a political rather than economic motive).

Aid or trade: Aid budgets are rarely strictly comparable. Although their purpose is the same – to promote the development of LDCs – their effect depends on which LDC is chosen. Allocation of aid for political reasons is admitted by governments which would, however, hesitate to confess that economic self interest may determine aspects of their programmes. But coincidences do happen: for example, parallel financing "has been essentially an *ad hoc* facility but has proven very useful in a number of cases where developmental and commercial interests have coincided," said a recent Canadian paper.

Insurance: Much trade between OECD countries and LDCs depends not only on the provision of trade finance but also on the possibility of insurance cover. German exporters complain about Hermes' policy of taking countries off cover; the Canadians have wondered whether the EDC may be applying "overly strict creditworthiness standards to export financing". In some countries, like Austria where the Oesterreichische Kontrollbank (OKB) is bound by the 1981 Export Promotion Act, the agency cannot increase premiums. So, if cover is then granted on high risk countries there will be losses which have to be met by the exporting country, either openly by government support to the export credit insurer or covertly by the aid budget (see Norway on next page).

Locked in LIRC: Although low interest rates are important when financing a contract, a growing tendency has been for importing countries to demand longer grace periods and payment terms. A new development has been to use currency swaps and exchange rate caps. German exporters complain that there are not as many advantages as might be thought in having a Low Interest Rate Currency (LIRC) because the interest rates are a reflection of the currency's strength and the market's expectation that the currency will appreciate. By using new techniques the LIRC advantage can be locked in as the exporter uses Consensus rate finance and transfers the subsidy to another currency.

Preferential rates: Non-OECD countries are not bound by OECD agreements so they can take advantage of soft credits available from OECD countries (even demand them explicitly, as Indonesia's Directive 8 does) while offering soft credits themselves to other countries. Brazil's aggressive approach to exporting by using preferential rates has been very successful. Mexico has recently agreed to reform its subsidies in the face of American pressure and retaliation.

Foreign content: Regulations on how much foreign content is allowed differ from country to country. The US Eximbank requires 100 per cent US content; the EEC countries generally demand 80 per cent. Canada demonstrates greater flexibility, claiming an average of 75 per cent. Japan presents an interesting feature: its tied aid credits allow non-Japanese content but competitors doubt whether much foreign content goes through.

Degrelle, "we consider commercial considerations as secondary: the development aspect comes first." He points to the fact that the French give a higher proportion of their GNP as aid than any other country, except the Netherlands and the Scandinavian countries. Their figure of 0.5 per cent contrasts with the US proportion of 0.2 per cent: "The country which gives the least aid shouldn't criticise others."

They see aid as crucial to developing countries. "In the poorest countries, financing flows have practically disappeared," says Degrelle. "The only thing that can keep trade going is public aid." And the two cannot be separated. "We mix aid and export credits up because we confuse the two in our minds," says Patrick Deveaud, head of export finance at Paribas.

The French also claim that their technique of offering mixed credits to start with (initiating) is fairer than the US or UK habit of matching. "Initiation may distort trade flows more and it can give us an advantage but it does stop a credit war developing," says a Paris banker. It also means that a mixed credit cannot go through until an exhaustive procedure has been followed to check it will help development.

"The only thing that can keep trade going is aid"
Degrelle, DREE.

When protocols are set up, they specify particular projects. If these do not come off for some reason, it is possible for companies to have theirs added but only by going through an another complex process.

Paris is particularly miffed at the US attitude to agricultural credits. The Americans give massive soft credits which, the French say, breaks a principle that they themselves put forward – that the length of credit should relate to the time a product takes to build or consume. For example, the US gives 36 month credits on grain sales.

If the international debate seems to present only two sides – the US and France – that is not because the debate does not exist in other countries. It is just because those two are at least open in their attitudes and mutual incomprehension.

Aid and trade have become so confused that the simple giving of aid for development purposes can no longer be separated clearly from financing commercially viable projects. But the main reason that the debate about mixed credits and other subsidies has obtained such a high profile is that, as Tony Woodward of Lloyds Merchant Bank puts it, "there are too many contractors and too few contracts." Financing terms are important. "But meeting the specification and winning on price are numbers one and two," says Dennis Flannery, which explains

How the systems work worldwide

The use of mixed credits – aid funds blended with export finance – has grown considerably over the past decade and sparked off an international debate. The original phrase to describe them was *credit mixtes*, which accurately reflected the fact that France was then the main user. Since the crisis of the mid-1970s, however, other countries have moved in on the markets. Even the United States, while remaining their staunchest opponent in principle, has made mixed credit offers to match the Europeans. Here is a guide to the systems used by the major exporting countries.

Australia: The Development Import Finance Facility is used to match other countries' soft finance by offering parallel financing. Australia gives the borrower a non-repayable grant for up to 30 per cent of the contract while the Export Finance and Insurance Corporation (EFIC) makes up the balance. The present budget (around A$16m) is fairly small but a proposal has been made to raise it to 5 per cent of the total aid budget or around A$24m.

Austria: "We call it the Austrian bidding system," says an envious competitor, "when an export credit agency comes in with a subsidised offer six hours before bidding closes." The system is run by Oesterreichische Kontrollbank (OKB) which is state controlled: all decisions to offer soft financing are taken in the national interest. Concessional export credits account for some 90 per cent of Austria's bilateral aid.

Belgium: Belgium has a system of low interest rate "state credits" with an annual budget of about BF2bn which can be used with commercial credits only to buy Belgian capital goods. Most of Belgium's tied aid goes to countries with which it has colonial ties such as Zaire, which takes a quarter of the total budget. The Belgian attitude is opposed to soft finance, since in a credit war, a country of its size would be bound to lose. However, this did not prevent it from offering soft credits to Thailand at the last moment after other bidders had agreed not to undercut each other.

The soft loan league

The most aggressive
1) Austria
2) Japan
3) Canada
4) UK

Soft but fair
France
Sweden
West Germany

The small players
Australia, Belgium, Denmark, Finland, Italy, Norway, Netherlands, Spain, Switzerland, USA.

Canada: The mixed credit programme was initiated in 1981 and is administered by the Export Development Corporation (EDC). Unlike other OECD countries, Canada does not report the soft loan portion as Overseas Development Assistance. Parallel financing combines commercial money from EDC with low interest rate protocols offered by the Canadian International Development Agency, especially to francophone countries: six contracts have been signed so far this year, five of them with the Republic of Cameroon.

Denmark: The Danes have always tried to keep aid and export credits strictly separate. The only exception has been a recent mixed credit of Dkr1bn to China which was presented as unique and not an attempt to match other countries.

Finland: As in Norway, mixed credits are granted on a case by case basis and administered by the guarantee board, Vientitakuulaitos (VTL). In 1984, electrification projects in Egypt, Mozambique and Tanzania accounted for the bulk of the 14 mixed credits granted.

France: The French system is based on protocols – credit lines at low interest rates – which are allocated on developmental criteria. Although French aid to francophone countries is channelled through Caisse Centrale de Cooperation Economique (CCCE), for other countries France has no specific aid agency and these protocols fulfil the aid function. For some countries, the protocols are given automatically. There are annual negotiations on interest rates, length and the mixture of aid and credit. The French policy is wholly long term: they always initiate mixed credits and never match those of other countries.

Italy: The budget is 200bn lire ($100m or half total bilateral aid) of which one quarter is available to be mixed with commercial credits, the rest for soft loans. The aid portion in a mixed credit is usually 25 per cent. Italy has supported France in resisting US pressure.

why the Japanese can win contracts with or without help from OECF funds.

There are various agreements designed to prevent unfair competition and to promote free trade, ranging from the OECD's Arrangement to the General Agreement on Tariffs and Trade. When times are good, most countries are happy to support them. Now, all are thinking of protectionism. Some, like the USA, talk of it openly. Others profess the ideals of free trade in public but at the same time do everything they can to support their exporting industries.

Two of the more closed are Japan and the United Kingdom, for different reasons and in different ways. Japan's Overseas Economic Cooperation Fund (OECF), the main aid body, is giving more loans as partially tied credits. These are at concessional rates of interest, and are themselves a form of mixed credits. They must be spent either in Japan or in any developing country. Other countries are suspicious of the way that they have grown as a proportion of total yen credits (from 34.8 per cent in 1980 to 48.9 per cent in 1983). Only in July was it finally agreed that such credits should be subject to OECD surveillance. Previously the Japanese had argued – following the letter of international agreements – that they were not subject to notification requirements because they were not strictly tied and were given only for development purposes.

Soft credits are "perfectly sensible, perfectly reasonable – good business for both parties" Stephens, Barclays

British exporters were not the only ones to doubt this but their reaction was the strongest. The recent controversy over the Bosphorus bridge included criticism that Japan's Overseas Economic Cooperation Fund had committed aid funds to a country that was not in great need. The British press seized on OECF's credit of \$205m: some were content to report that even the bitumen would be brought in from Japan, others (wrongly) equated Britain's Aid and Trade Provision (ATP) with OECF and found it only one fortieth the size.

A more balanced reaction comes from Barclays Bank's Malcolm Stephens. He acknowledges that Japanese exporters do enjoy excellent official support (although he also classes France and the UK as the two other countries with the same advantage) but thinks that part of the resentment against the Japanese as aggressive exporters is because of the difficulty of selling into Japan.

The UK is now backing its exporters more strongly and setting up a system to provide long term soft credits (see page 3). The changes will be technical, not budgetary

Japan: The Overseas Economic Cooperation Fund (OSCF) has access to the low cost personal savings of the Japanese private sector, which it uses to offer partially tied credits at low interest rates.

They are not officially mixed credits (which combine aid funds with export credits) but objections from other countries mean that they are now subject to OECD surveillance. They can be spent in developing countries as well as in Japan.

Japan's Overseas Development Assistance budget was \$4.319bn in 1984, second only to that of France. Although OECF funds help to soften the cost of a project for the buyer, as in the case of the Bosphorus bridge, Japanese contractors can lower either the price or the interest rate themselves by injecting a subsidy. This can be considered either loss leading or dumping.

Netherlands: The Dutch are not major players but were reported to have prepared an aggressive package for Indonesia; in the end it was beaten by a mixed credit containing a 32.54 per cent grant element made by the United Kingdom.

Norway: Mixed credits are offered only in exceptional circumstances. The budget is around \$5m annually and the system is administered by the insurance agency, GIEK, after consultation with the Norwegian government and the aid agency NORAD. The new scheme replaces the developing country account under which NORAD could insist on GIEK offering cover, leaving the insurance agency to turn to the Ministry of Foreign Affairs if the loan went sour. GIEK's deficit is partly covered by claims absorbed by NORAD.

Spain: The Fondo de Ayuda al Desarollo (FAD) was doubled from Ptas 10bn (\$57m) to Ptas 20bn between 1981 and 1983. It is thought that the whole of this year's budget will be accounted for by a mixed credit package to China.

Sweden: The Commission for Technical Cooperation (BITS) specialises in offering mixed credits and parallel financing packages which always follow international guidelines by including a 25 per cent aid element. These soft loans go to the poorer middle income countries (led by China); the poorest countries receive untied aid.

Switzerland: For the three years to the end of 1985, the Federal Government had earmarked SF340m to subsidise Swiss exporters in mixed credits. Switzerland's National Bank views export subsidies, with protectionism, as threats to the free trade on which the country depends.

United Kingdom: Britain's aid is administered by the Overseas Development Administration. Much of the budget is earmarked for straight grants for developing countries, (including Egypt which has benefited from loans and ECGD backed lines of credit), but the Aid and Trade Provision – about 6 per cent of the total aid budget – is used specifically to provide mixed credits when other countries are expected to offer them.

The government has just announced that part of the ATP budget will be used to help banks provide long term low interest loans. These will be particularly useful in Asia, where borrowers are used to long OECF loans, and will be used more to initiate, rather than match, mixed credits. The UK also has a Rapid Matching Facility designed to match other countries' credits at very short notice: this has been used only once, for the first stage of the Pohang Steel project in Korea, when it was thought (wrongly, as it later appeared) that the Austrians would make a last minute bid. British policy was based on the principle of avoiding any possible distortion of trade: the UK claimed only to match and never to initiate. Therefore, an offer which other countries would regard as initiation was called "pre-matching".

United States: The Export-Import Bank (Eximbank) is responsible for supporting US exports with loan, guarantee and insurance programmes. It has offered four soft credits solely to match offers by other countries and accompanied them with strongly worded press releases. None of them succeeded in landing the project for a US contractor. Its first genuine mixed credit (using US Agency for International Development not Treasury funds) was to match a Canadian package to Botswana.

West Germany: The Kreditanstalt für Wiederaufbau (KfW) provides long term finance at matrix rates as well as funnelling aid to developing countries. It insists that mixed credits are offered only after agreement, between the governments of Germany and of the developing nation and that the project must meet German aid criteria. All mixed credits stay within OECD guidelines with a minimum grant element of 25 per cent and an average of more than 30 per cent. Two of 1984's biggest projects, the Ataturk hydroelectric project in Turkey and the Medellin metro in Colombia, benefitted from KfW funds.

particularly, to initiate loans.

Exporters hope that the developmental criteria will not be too stringent. They believe that current procedures are too slow and stop ATP being used for its original purpose of promoting British sales. They treat French claims that their process is even slower with deep scepticism.

If they are delays in the UK system, they represent a back handed compliment to the thoroughness with which Overseas Development Association (ODA) examines applications. But ODA officials point out that they have discretion on ATP payments up to £10m ($13m) (which previously had to be referred to the Treasury) and that their times are short compared to those in other countries where decisions can take up to six months. UK exporters are unwilling to accept this, and are convinced that they are losing out.

Peter McGregor, director of the UK's Export Group for the Constructional Industries, also says that Britain's suppliers do not benefit from aid as much as their rivals do. The UK's bilateral aid budget is only slightly bigger than its multilateral (untied) aid commitment whereas in other countries the ratio is "dramatically different". Japan and France give five and six times as much in bilateral aid as in multilateral aid.

West German exporters pride themselves on quality and claim that competitive financing forms no part of their success although it may contribute to their failure. A spokesman for Siemens, which lost the Blanda project in Iceland to Japan's Sumitomo, laments that the customer was more interested in the financing package than in the technical merits of the bid. German exporters might wish that they enjoyed the advantages of the French or Austrians but, at the moment, claims Gerhard Becher of Philipp Holzmann, "mixed credits are irrelevant." He adds, however, that they could be "a significant instrument in winning deals."

Many of Germany's competitors would agree. One of them, Britain's Hawker Siddeley, recently said that German companies had gazumped them on three orders worth a total of £110m ($143m) for railway locomotives in Africa. German politicians do not hesitate to take credit for boosting their country's exports. According to Jurgen Warnke, the Federal Republic's minister for development aid, some 84 per cent of Germany's aid to third world countries results in German exports.

Says Malcolm Stephens, "everybody's aid is too complex" and the problems will not be resolved by reducing everything to "simplistic" and "black and white" terms. He thinks that export support is a good way of helping industry and sees no need for moral apologies. The perception fostered by lobbyists in the UK, he says, is that mixed credit donors are the "dirty raincoat" brigade. Stephens comes clean: soft credits are "perfectly sensible, perfectly reasonable, helpful to the recipient, realistic, economic, cost effective, rational for both donor and recipient and good business for both parties." But such pragmatic views are rare in an escalating dispute.

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Senator **Heinz**. Thank you all very much.

Mr. Trammell, on the last point—or any of you—one of the things I'm trying to do is get an idea—and I think this would be particularly important for Senator Proxmire, who is not always a total enthusiast here—of the idea of the damage caused to our economy to our export sector when we lose an export sale to a mixed-credit offer.

RATIO OF FOLLOW-ON ORDERS FOR U.S. GOODS AND SERVICES

Now in your testimony you state that your industry acts as an opening wedge and I suppose that means that the initial export contract gained for your services leads to many follow-on orders for U.S. goods and services.

What kind of a ratio there are we talking about? Say, you have a $100 million contract, what does that mean for the United States over some more extended period of time?

Mr. **Trammell**. Let's talk about an industrial project where the initial ticket may be quite high. There are two ways in which tie-in sales will follow. First, that project will continue to purchase spares, catalysts, other needs over a 20-year-or-more life. Each year there will be more U.S. exports to take care of that need.

This is highly dependent on the nature of the project itself.

Senator **Heinz**. Is there a range of ratios? I mean, would it be anywhere from twice to 5 or 10 times? Would it be less than that? Would it be more than that?

Mr. **Trammell**. Let me just hypothesize with you that it might be as much as 10 percent of the project's total value times 20 years.

Senator **Heinz**. So if you didn't adjust for the time value of money, you're talking about twice the cost of the original project?

Mr. **Trammell**. Yes. I mentioned to you that particular project. It is highly likely that once one type of installation is put into a country, the country will tend to take another one from the same general source of supply, again to avoid having separately trained individuals and separate stockpiles of repair and replacement equipment.

Dr. **Harsanyi**. I don't have any aggregate figures, but I have a specific example of a project that our Canadian subsidiary has recently won and they tell me that mixed-credit financing was an element in it, not perhaps the determining one, but a key element. This project is a power project. It's a boiler.

Because we got the first one, because the Canadian subsidiary got the first one, it has the option of getting the second one too. So immediately the follow-on unit, some $30 million for the first one and $25 million for the second one, is theirs. It's nice for combustion engineering either way, but it's not very good for our plants in Tennessee and Pennsylvania.

Senator **Heinz**. Mr. Hollinshead.

Mr. **Hollinshead**. Just to also testify to the multiplier effect of the power equipment industry, it certainly is there, probably in the range of two times the original export order, just simply in terms of spare parts, in terms of service, in terms of training, as well as those follow-on units that you hope to get once you've established a good credible presence in the country.

On the negative side of that, things can become so bad that American exporters give up even trying on whole countries. India today for an American exporter is a market that most of us just don't want to incur the marketing costs to even prepare the offer because mixed credits are so rampant in India through the British and through several other countries that in effect we've given up trying to quote in that particular country because of mixed credits.

Senator **Heinz**. Now, Mr. Hollinshead, let me ask you this. Mr. Mulford stated that our existing tied-aid program, which several of you mentioned, the 1983 amendments, is inadequate to deal with the mixed-credit problem.

You, Mr. Hollinshead, in your testimony indicated that you thought $300 million was too small. You preferred $500 million. Why is $500 million the right number? Admittedly, it's more than $300 million and more is probably better, but why not $1 billion, why not $2 billion? What's the basis for saying $500 million is about right?

Mr. **Hollinshead**. I think the accuracy of the analysis of going from $300 to $500 is about as you imply. There's nothing that's—it's bigger.

Senator **Heinz**. Well, all right. That's careful quantitative analysis. I can understand.

Mr. **Hollinshead**. It is based on one practical fact and that is there is some legislation pending in the House that also had talked about $500 million.

Senator **Heinz**. The Johnson bill, soon to be the Bonker-Johnson bill I'm told.

Mr. **Hollinshead**. That's right. It had a familiar ring to it so that was the rationale.

NEED FOR SHORT-TIME RESPONSE

Senator **Heinz**. I was afraid I might get that answer.

Mr. Trammell, back to you—I seem to want to pick on you today. In your written testimony you emphasize the need for a short response time to mixed-credit application which is something also that has been touched on by others, and yet you also suggest that decisions be made on a multiagency basis. You mentioned the U.S. Trade Representative [USTR], Department of Commerce, AID, Exim. Now looking at all this realistically, aren't those two goals incompatible?

Mr. **Trammell**. They certainly can be, Senator. I would hope that once the program is established and if it is a two-goal program—one to help negotiations, the other to push exports competitively—that some guidelines could be established and a decision on a case-by-case use of the program delegated to someone like Eximbank. But I don't think Eximbank by itself can satisfy the needs of Treasury's negotiations.

Senator **Heinz**. Well, are you saying that the 10-day deadline that you suggested should be only for so-called competitive situations and that where Treasury wants to do offensive targeting they can take their time?

Mr. **Trammell**. I think that's an appropriate use of that deadline.

Senator **Heinz**. Mr. Hollinshead, in your testimony—and others have commented on this as well—you expressed concern that the sunset provision in the bill of 2 years is going to encourage other countries to wait us out.

Mr. Mulford when I questioned him on this said:

> Oh, well, I'm willing to make a pretty strong statement that if this isn't enough money we'll be back for more. We mean it. No one has cut holes into our pockets. This time we really have a pocket and there's going to be $300 million or more in it.

What should we do on the committee? Should we believe Mr. Mulford and just pass the 2-year authorization o- do you have a concrete suggestion?

Mr. **Hollinshead**. Well, I think it's comforting he made that statement because that has not been the position or at least the announced position of the administration in the past. But I would feel much more comfortable if the legislation itself did away with the 2-year limitation and simply provided for the President to come back to the Congress at the time that he believes the objectives have been reached and request that you terminate the legislation.

Senator **Heinz**. But also in your testimony you express agreement with the idea that the war chest should self-destruct once negotiations have been achieved.

Mr. **Hollinshead**. Well, I guess I consider the President coming back and asking Congress to terminate the legislation is within the realm of what I would mean by self-destruct. I don't mean that the legislation itself should have it.

Senator **Heinz**. That clarifies it, although if one believes that in fact it's not a good idea to create an entitlement here and if you believe, as history has written chapter and verse in support of, that Congress works best by inertia or that at least inertia is the ruling principle of the Congress—it certainly is true on the budget deficit and we don't do anything about it but we talk about it a lot—it seems to me it might be rather difficult to get the Congress to end a program, particularly if we implement it the way Mr. Trammell and others suggest—that is, have both an offensive and a defensive component—there's going to be a constituency for that program and it might be hard to get rid of it. How do you respond to that?

Mr. **Hollinshead**. Well, I think those of us in the export industry have made it clear in our statements today and elsewhere that we really do not want to continue this kind of subsidy beyond the completion of a workable, credible OECD agreement. So I think you can hang us by our own statements in terms of interest groups coming to the Congress asking for it to be extended. We have all said we wouldn't want it extended.

Senator **Heinz**. What about this as a potential answer—that maybe we should think about retaining—indeed, you've all urged us to retain—the present $100 million authorization for AID mixed-credit financing—maybe conceptually the way we ought to think of that is that $100 million is for defense and the $300 million is for offense. Is that a flawed way of looking at it?

Dr. **Harsanyi**. Mr. Chairman, if I may, I think that the key is to tie in the life of the special fund to success in negotiations, however you define success. You tried very hard to get people to define success. So long as what we have in the statute now, the defensive part of the program, stays in existence. I think that business will see that we have a broad base of support from the Government to be competitive where we need to be.

POSSIBLE GATT PROBLEM

Senator HEINZ. All right. Dr. Hufbauer, I was intrigued by your suggestion on how we might finance through going through a two-step decisionmaking process when all else failed the idea of a low-rate tariff on the offending country. You indicated there might be GATT problems with that. I think that's probably right.

Do we in any sense protect ourselves from some kind of alleged GATT violation that might have substance to it if we follow the process that you outlined, or are we still going to have a GATT problem?

Dr. HUFBAUER. Senator, we would still have a GATT problem, no doubt about it. An analogy that comes to my mind is the process followed on the Subsidies Code which I was very much involved with. Other countries thought the United States had a GATT problem with the absence of an injury test in the U.S. countervailing duty law, before 1979. Nevertheless, negotiations proceeded and we achieved a code. It didn't deal with all the problems; otherwise, we wouldn't be here today. But I think the negotiations for that code showed what can be achieved with creative tension, even though part of the creative tension arises from a GATT problem.

Senator HEINZ. Now you rather carefully laid out the extent to which U.S. exports were minimally financed by the U.S. Government compared to other countries. Is it your belief, therefore, that the $300 million or even a $500 million offensive fund, assuming the retention of the defensive fund that we were talking about a moment ago, will not achieve the intended objectives that the administration has specified because it's not large enough?

Dr. HUFBAUER. Absolutely, Senator, especially if the war chest is spent for offensive purposes. My view of the world is that the demands for mixed-credit financing on the part of countries such as Turkey, Indonesia, Malaysia, is practically infinite.

Senator HEINZ. Well, it's tied somewhat with their international debt situation.

Dr. HUFBAUER. Yes. The demand is very large. It doesn't stop at $6 billion. It probably doesn't stop at $60 billion. It's just very large. As long as a borrowing country has hopes of getting cheap financing, cheaper than market rates, it will spend a lot of time figuring how it can get a mixed-credit game going. So if we go into the offensive financing business, I think we will just increase the total volume of mixed-credit activity, very nearly by full the extent of our own offensive activity. I doubt that we will do very much to achieve our diplomatic objectives with the French and the Italians because we won't inflict much pain on them. By contrast, my approach would inflict some pain, but not unbearable pain.

Senator HEINZ. Well, that's a very pessimistic assessment. It says that we really can't successfully fight fire with fire. On the other hand, you propose a method of at least paying for the kindling.

Dr. HUFBAUER. I think it's one thing to fight fire with fire on a defensive basis, but if we start fighting one fire over here with a new fire over there, then a very big and expensive conflagration could result. Even when we are fighting fire with fire on a defensive basis, it seems to me that our staying power will be very much stronger if somebody else is paying for the kindling.

Senator HEINZ. I don't think anybody would disagree with that, but as I understand the Treasury strategy, what they would do is go into a market, probably an African market I suppose, that was nearly completely French and they would start messing around with the idea of sending the French a message that would get translated into different instructions to their OECD negotiators in Paris. You're saying that that's just unlikely to work?

Dr. HUFBAUER. I think it's unlikely to work. Let's take some likely French markets, Chad, Niger, Algeria, none of the high-credit quality countries today. Most of North Africa would fall in that characterization. I think that the French would say to these countries in the French zone of influence, "Look at what we have done for you. Our diplomacy has really paid off very handsomely. The Americans are now helping to finance your imports and we will, of course, continue our traditional programs."

When I was in the business of negotiating export credit rules some years ago, that's what the French confided. They didn't have any objection if the United States came into those markets. It's true there will be particular deals that will offend particular French companies. But in the grander scope of things, as seen by the French Treasury, I cannot imagine that United States mixed-credit competition in North Africa will change French views.

ESTABLISH A BEACHHEAD

Senator HEINZ. Well, there is an implicit, although no one has stated it very clearly—there's a foot-in-the-door hypothesis here, that if you can finally get someone in place in Chad or Algeria, if you can establish a beachhead, if you can begin to have your people in that country kind of selling on a full-time basis, if you can ensure that there are—and this is one of the arguments that have been strongly made for reform of that section of the Internal Revenue Code that made it difficult to properly compensate Americans living abroad in the employ of United States companies, section 911—it's very important to have your person over there because they're going to be more likely to order United States products than if you have to employ a Swiss or an Italian or a German or a Frenchman in that job who might coincidentally order a product from somebody he knows better.

Do you think that's a reasonable hypothesis or not?

Dr. HUFBAUER. Yes, Senator, I do think it's a reasonable hypothesis, but the issue comes to the magnitude of the war chest. If I could foresee a path whereby the war chest reached not $300 million, but $3 billion, thereby supporting $9 billion of subsidized U.S. exports annually, then I could say, yes, suddenly you're big enough to be making the kind of impact suggested by that hypothesis. But I cannot see a $3 billion annual war chest.

Senator HEINZ. Then you would say there's a chance of really getting negotiations that might succeed?

Dr. HUFBAUER. Yes, by the combination of offensive fire and defensive fire, I think at that level of magnitude—say $9 billion of U.S. mixed-credit exports annually, which still amounts to only 5 percent of U.S. exports—something might happen. But I think you would have to reach at least that threshold for this strategy to pay off.

Senator HEINZ. This is an unusual situation. We have somebody who's not in the private sector saying that the private sector is wrong. They think $300 or $500 million is really going to be worth something. Why is Dr. Hufbauer wrong?

Mr. HOLLINSHEAD. Well, I'd like to congratulate him on the magnitude of numbers he's talking about. But to go back to your earlier question about why go above $300 million and why $500 million and what's the justification——

Senator HEINZ. I gave you a chance.

Mr. HOLLINSHEAD. I think part of the justification for that is simply you've got to look at the levels of support that other countries are offering. If Canada is doing $300 million and the United Kingdom is doing $700 million, then maybe $3 billion would crush them all, but maybe you don't need $3 billion if the magnitude of the programs of the countries with which we're competing are in the range of $300, $500, or $700 million. Therefore, there is some justification.

Senator HEINZ. So what you're saying is, if you're in the range of the countries that are competing, you think that will be enough to have an impact. Dr. Hufbauer is saying, "No, you've got to be a lot better."

The argument is rather critical because there are a lot of members of Congress, myself included, who don't want to spend any money that we don't have to spend. All things being equal and having lots of free credit around which we didn't have to borrow for, we would like to support exports, but if this isn't going to do its intended job people are going to reassess their appraisal of this proposal by the administration.

Mr. HOLLINSHEAD. Well, there's no question that the recipient countries could absorb the $3 billion or the $5 billion or the $9 billion or whatever. The real question is, at what point in time are the French going to be bothered enough about the losses they're incurring from their budgetary standpoint to come to the OECD negotiations with a different set of instructions: and the French are going through some domestic changes of heart these days in terms of their own budgetary deficits. They do have a large deficit already from their COFAS Program, supporting normal exports, and if we can impose an additional hurt to get the French Ministry of Finance to see that this is a costly process, then we ought to win.

But I don't think anyone, Senator, can give you whether that's $500, or $750, or $1 billion—but the $300 million number seems to us low. It's the lowest, to our knowledge of any of the countries' programs in the world in terms of mixed credits. So it seems low for the United States to be at that level.

Senator HEINZ. Dr. Harsanyi.

Dr. HARSANYI. Senator, I would just say that the defensive program did help move the negotiations along. So we have some indication that the program has done some good. However, now the ne-

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gotiations are deadlocked. Something bigger is needed now. We think that $300 million is a good start. I hate to be the one in this group quoting Mae West, but she said that, "If you're faced with two evils, choose the one you haven't tried before," and it seems to me we haven't tried a really aggressive mixed-credit program and that it's worth a try for a couple of years.

Senator **Heinz**. Or try both or something.

RESULTS OF PRESENT AUTHORITY

Dr. Hufbauer, would you agree that the improvements on mixed credits which are largely technical plus getting everybody up to the 25-percent minimum threshold were in fact brought about because we have taken a fairly aggressive position so far? Have we seen the precursor of the war chest bill yield some fruit?

Dr. **Hufbauer**. It's a combination of two things. First, United States persistence and aggressiveness and skillful negotiation; and second, the EC internal decision that they would no longer allow one country to block agreement on a negotiating position on issues of this sort, on technical issues.

Senator **Heinz**. It's gone from divine right to the buddy system?

Dr. **Hufbauer**. That's right. It was a terribly important procedure change because, even at the end, the French did not go along with tighter discipline on mixed-credit competition. So the combination of United States pressure and internal EC reform, made progress possible.

Senator **Heinz**. Very well. Any other comments any of you would care to make?

Mr. **Trammell**. Mr. Chairman, on this issue the right amount for an offensive program, I'm sure that with a lot of thought somebody could come up with a defensible number, but I would make a suggestion to you. If the real intent is to cause one country who is perceived to be the greatest offender to come to terms, why not match him dollar for dollar? Whatever he's got in his budget, put in ours.

Senator **Heinz**. A valid thought. Thank you all very much. I appreciate your being patient. I'm sorry we were interrupted by votes. Your testimony has been very helpful and valuable and it is my hope that the committee will be able to move very promptly to markup on this legislation and get it to the floor and pass it and maybe we can do it if we get the maximum cooperation, who knows, before Thanksgiving. I see that we've got a lot of support for this and I'm delighted.

The hearing is adjourned.

[Whereupon, at 12:45 p.m., the hearing was adjourned.]

[Reponse to written questions of Senators Proxmire and additional material supplied for the record follow:]

SENATOR PROXMIRE QUESTIONS
FOR DR. HARSANYI

1. You imply on page 2 of your prepared testimony that the U.S. government should have a war chest to fund mixed credits because even though an individual transaction may be expensive to the government it could lead to profitable follow on business for U.S. firms.

   I note that in February Mr. Goldfield, an Assistant Secretary of Commerce, testified that "In most cases an order won with a mixed credit confers no lasting advantage to the initiating country. An initial equipment purchase does not necessarily lead to a later purchase from the same source." In light of that don't you think that winning sales by giving over 25 percent of the product away becomes a pretty expensive way for our government to win export sales?

(Response to questions follow)

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Glenn E. Watts
President, Communications
Workers of America

December 18, 1985

Senator John Heinz
Chairman, Subcommittee on International
Finance and Monetary Policy
United States Senate
534 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. Chairman:

I am responding to the Subcommittee's request of December 6 regarding a query from Senator Proxmire. The query, simply put, asks for clarification between my testimony regarding mixed credits and the possibility of follow-on business and Mr. Goldfield's February testimony that "an order won with a mixed credit [in most cases] confers no lasting advantage to the initiating country".

In responding, I would first like to point out that my statement acknowledged that "the cost of this [mixed credit] practice to the U.S. and our international competitiveness is not easily documented". Further, my comments did flow from data on lost sales due to mixed credits offers which U.S. exporters could not compete against and which were clearly a deciding factor in winning business. Attracting business is key to long-term market share, repeat business, and follow-on work.

In the Engineering and Construction Services Industry, there are multiple examples of firms which have won preliminary engineering and design work and, due to their close working association with the client on the specific project, were able to be in a situation of clear and sustainable advantage for the follow-on work. In the aircraft manufacturing industry, there is close correlation between the ability to retain a market and competitive financing. In the latter example, the instance of a tied aid credit offer from another country can effectively uproot follow-on business where current advantage is held.

Mr. Goldfield's comments, though not part of his written statement provided on February 5 to the Subcommittee, was correct in its simplicity that "an initial equipment purchase does not necessarily lead to a later purchase". However, it has been our 55

Senator John Heinz
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Page 2

experience, throughout industry, that an advantage does accrue to being in place with the client during follow-on business possibilities.

As an end note, I would like the Subcommittee to also note Mr. Mulford's testimony of October 30 in support of our position as to the advantage offered by an in-place mixed credits program. As Assistant Secretary of Treasury for International Finance, he testified to the Subcommittee that "initiators [of tied credits packages] retain the commercial advantage of being sought out first by the customer". This is clear indication that the Administration does in fact understand the elements of advantage in successful bidding situations.

Thank you for this opportunity to expand my remarks.

Sincerely,

Fruzsina M. Harsanyi

Dr. Fruzsina M. Harsanyi
Combustion Engineering, Inc.
for the Coalition for Employment
through Exports

P.S. Enclosed is also an article on a power project, which C-E's Canadian subsidiary is negotiating. The article reports on a Cabinet decision concerning the terms of the loan. The successful bidder on the first unit will have the option to build the second unit. That seems to be a fairly clear case of follow-on business.

TORONTO GLOBE & MAIL
Nov. 28, 1985

Slip undercuts negotiators in Thai deal

By David Stewart-Patterson

OTTAWA--The federal Cabinet has let slip some secrets that undercut Canadian negotiators who are haggling over a $77 million trade financing deal with Thailand.

Last week, the Cabinet passed an order-in-council approving a 25-year interest-free loan of up to $20,400,000 to support the sale of two steam generating plants to Thailand.

The terms, duly published on Monday, effectively set out Canada's bottom-line position as it tries to compete against cut-rate financing packages being offered by France and Japan.

Negotiations on the financing terms are still under way, according to a spokesman for Export Development Corp., which would finance the rest of the purchase price under its normal loan program.

The Crown corporation is working out the final details of a financing contract for one plant, scheduled to be signed next Tuesday. Talks on the second contract could drag on for several months.

The contracts would go to Combustion Engineering Superheater Ltd. of Montreal, the wholly owned subsidiary of a U.S. multinational, Combustion Engineering Inc. of Stamford, Conn.

Thus far, "the terms that have been negotiated are less favorable (to Thailand) than the bottom line that is in the order-in-council," an External Affairs Department spokesman said.

The order-in-council specifies that the interest-free money would be available for up to 38.3 percent of the price of the generators. Thailand would have to make no payments for the first 10 years and would pay off the loan in 30 installments, one every six months, for the following 15 years.

Officials at EDC and in the External Affairs Department seemed surprised that the information had been discovered and both they and a spokesman for International Trade Minister James Kelleher asked THE GLOBE AND MAIL not to publish it, even though the details are on the public record for anyone to see.

The progress of talks to date shows that Thai negotiators "obviously are not aware of that order-in-council," the External Affairs spokesman said. "If the Thais were aware of what our bottom line was, that's what they'd go for."

Neither the Government nor EDC would say how much money Canadian taxpayers might lose because of the bottom-line terms becoming public knowledge.

EDC follow a policy of not reporting the interest rate or other terms on any of its loans because it feels that if a country knows what a previous customer got, it will try to win terms at least as good.

A check of past orders-in-council approving cut-rate loan deals shows that the precise terms are normally set out in an annex, which is not made public.

For instance, the preamble to the 1982 order-in-council approving support for a sale of subway cars by Bombardier Inc. to New York City noted that the buyer required financing of $750 million (U.S.) for 10 years at 9.7 percent interest, then half the going rate.

But the interest actually charged on the $240 million provided by EDC and on the $510 million that came from the federal treasury, together with the terms of a performance bond posted by the Government, were kept secret.

Aside from the benefit to the buying country, Canadian exporters run the risk of losing deals if such details become public knowledge before a contract is signed. That is because companies from other countries would get a chance to look at the Canadian Government's cards and could then egg their own governments into matching or beating the Canadian financing offer.

Most export loans are covered by a gentlemen's agreement between industrialized countries that sets minimum interest rates on export financing. For a country like Thailand, this consensus says exporting governments must charge at least 9.85 percent interest and lend money for no longer than 10 years.

While EDC would not reveal the interest rate on the $47,500,000 (Canadian) loan it will offer to support the two Thai sales, it said that most loans this year have been at consensus rates.

Canada says that it never offers less than consensus rates unless another country breaks the rules first. And if EDC thinks it cannot live with the terms being demanded by the buyer, it passes the buck to the Cabinet, which must then decide if making the sale would be in the national interest.

When the Cabinet approves such a cut-rate loan, it is effectively deciding that the private-sector profits and jobs to be gained from the sale are worth the cost to the taxpayer.

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December 18, 1985

Mr. Edward Malan
Committee Editor
United States Senate
Committee on Banking, Housing
and Urban Affairs
Washington, D.C. 20510

Dear Mr. Malan:

Testimony before the Subcommittee on International Finance and Monetary Policy (October 30, 1985)

Senator Heinz has requested that I respond to the appended questions posed by Senator Proxmire. My comments are set forth below.

SENATOR PROXMIRE QUESTIONS
FOR MR. TRAMMELL

Q. 1. In the article from the October 1985 edition of the Euromoney Trade Finance Report which was attached to your testimony there is a discussion of the French use of mixed aid credits. That article points out that mixed credits are the way the French give their foreign aid and the French maintain they are not just a way of winning business. One senior French official is quoted as saying "Mixed credits are a very expensive way of keeping employment going. It would be idoitic to use them for industrial reasons."

Don't you agree with that conclusion? Isn't using mixed credits with a grant element of more than 25 percent a very expensive way of keeping workers dependent on such an export employed?

SENATOR PROXMIRE QUESTIONS

FOR MR. HOLLINSHEAD

Q. 1. On page 4 of your testimony you make a couple of statements that give real credence to the concerns about this program that I expressed in my opening statement. You say for example that a "$300 million fund is too small to be credible" and that the warchest fund should not be administered by the Treasury Department because that alleged guardian of taxpayer monies does not have, in your words, the "right mentality".

Mr. Mulford may say Treasury is not creating an open ended entitlement fund with this warchest proposal but certainly exporters will want to make it one. Let me ask you what is wrong with the Treasury Department's "mentality"? Aren't you really concerned that Treasury will keep the interests of our taxpayers in mind and not be as generous with this new fund as you would like?

A. 1. The $300 million fund proposed by the Administration to wage war against the tied-aid credits distorting the export markets is, indeed, not large enough in comparison to the funds committed cumulatively by France, Japan and other exporting nations for this purpose; we think more will be needed to meet the Administration's objectives. However, the 300-million dollar fund, targetted properly and administered with perseverance, will be perceived by our competitors as a clear expression of a new momentum, which needs to be maintained throughout the process of negotiations within OECD.

As far as Treasury's mentality is concerned, the comments made by Mr. Hollinshead should be understood in the context of functional differences that exist between Eximbank and the Treasury Department. Needless to say, both institutions are very sensitive to taxpayer interests and should remain so. Yet, of the two, it is the Bank that feels more the impact of the export markets where tied-aid credits have been merciless. The assurances since given by the Treasury Department that it intends to cooperate closely with the Bank and, in fact, rely on the Bank for project identification are a step in the right direction and should help alleviate our concerns in this area.

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November 20, 1985

The Honorable John Heinz
Chairman, Subcommittee on International
  Finance and Monetary Policy
Committee on Banking, Housing
  and Urban Affairs
United States Senate
534 Senate Dirksen Office Building
Washington, D.C. 20510

Dear Senator Heinz:

MAPI welcomes this opportunity to offer our views in support of S. 1763, the proposed "Fair Export Financing Act of 1985." We ask that this letter be made a part of the record of the hearings.

As you may know, the Institute represents the capital goods and allied products industries of the United States. In addition to traditional capital goods product lines (e.g., machinery and other industrial equipment), MAPI's constituency includes leading companies in the electronics, precision instruments, telecommunications, computer, office systems, aerospace, and similar high-technology industries.

Our views on S. 1763 may be summarized as follows:

-- The Congress should authorize the $300 million "war chest" and enact appropriations in that amount. Although Eximbank could, without specific congressional approval, sustain a more aggressive tied-aid credit program, such an approach would of course entail operating losses well above the already substantial losses being incurred by the Bank. In view of the United States' history of vacillation in providing fully competitive export financing (detailed below), to be convincing as a deterrent to foreign competitors offering mixed credits, we believe the Administration's more aggressive approach should have the clear endorsement of the Congress.

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-- The "war chest" proposal represents an important part of the Administration's Trade Policy Action Plan. Although, like many other parts of the Plan, it is intended to curb a foreign unfair trade practice, it also holds forth the prospect of furthering U.S. exports to some extent.

-- The provision of fully competitive export financing --including not only the $300 million "war chest" but also adequate funding for Eximbank's regular operations--should be considered as part of a wide-ranging program to improve the attractiveness of the United States as a source for manufacturing. That is, fully competitive export financing should be considered as an important part of a program which also includes: the recently initiated efforts to lower the value of the dollar and to eliminate or reduce foreign barriers to U.S. exports of goods and services; a tax system having as one of its principal objectives improving the international competitive position of the United States; amelioration of regulations that increase U.S. production costs relative to those of competitors; and a reduction in the "regulatory maze" confronting exporters as a result of the proliferation of export controls, the Foreign Corrupt Practices Act, anti-boycott regulations, etc.

-- Responsibility for administering the $300 million "war chest" should be placed with the Export-Import Bank. There seems to be no good reason for an additional bureaucratic layer--Department of the Treasury--in the review of transactions that could result in delays in Eximbank responses. The goal of the measure is straightforward--to negotiate an increase in the minimum permissible grant element to a level of 50 percent or a level close to that. Through their oversight function, the committees of Congress can ensure that the program is administered in a manner to achieve that objective. The bill could simply require that the Treasury notify the Congress when, in its view, U.S. negotiating objectives have been met.

Under longstanding procedures, the National Advisory Council on International Monetary and Financial Policies (NAC), chaired by Treasury, coordinates U.S. international lending policies and reviews individual applications on transactions involving Eximbank liability (loans and/or guarantees) of $30 million or more. This NAC review procedure should provide adequate Treasury oversight.

- While we can understand that the Administration, at a time of severe budget stringency, would want to establish a termination date (September 30, 1987) for an extraordinary program, we question whether a specific termination date would send the appropriate signal to foreign competitors as to the determination of the U.S. government to achieve a satisfactory resolution of the tied-aid credits problem. Indeed we oppose including such a termination date.

The Growing Importance of Tied-Aid ("Mixed") Credits

The Administration has made impressive progress in improving the operation of the international Arrangement on Guidelines for Officially Supported Export Credits by obtaining agreement to reduce subsidies associated with export financing and other changes in the rules. However, as the rules have been tightened, international competition for a decreased number of projects has intensified and, increasingly, foreign competitors, notably France, have made offers in the form of mixed credits which are outside the coverage of the Arrangement. As the Treasury has reported to the Congress:

- The number of notified tied-aid credits with low grant elements has doubled since 1982; and
- The Organization for Economic Cooperation and Development (OECD) predicts that the amount of such offers will increase to over $6 billion in 1985.

The Treasury concludes:

> These credits, when used for commercial purposes in the guise of foreign aid, represent an unfair trade practice, have caused the United States to lose key export sales, and have diverted funds away from development assistance. Thus, the continued use of commercially motivated tied aid credits threatens to undermine the Arrangement and increase international trade tensions.

The Treasury also has concluded that existing statutory authority--the Trade and Development Enhancement Act of 1983--does not provide sufficient leverage to improve the terms of the international Arrangement. That is, Eximbank's ability to match has been limited because of its dwindling capital and reserves. Further, Agency for International Development (AID) support has been limited by its country allocation process and the requirement that its activities be for development purposes. As a matter of fact in 1984 there was a lack of will on the part of Eximbank and the Administration to develop a program to counter "mixed credit" offers by foreign competitors./1

__Lack of Consistency and a Strong__
__Commitment in U.S. Export Financing__

__The record__.--When one reviews the "stops and starts" in funding for Export-Import Bank financing in recent years and the regulatory impediments placed on the Export-Import Bank, it is not surprising that some U.S. firms whose exports depend heavily on export financing--and foreign customers who expect their imports to be financed--regard the United States as an uncertain source of financing. During the Reagan Administration alone the Bank was, in effect, inoperative from February until July 1981, received reduced funding for fiscal years 1982 and 1983, and was lending continuously at rates above--at times far above--the international Arrangement minimums until January 1983. The United States' reaction to the proliferation of tied-aid credit offers by foreign competitors was slow in coming and of limited effectiveness, and in January 1985 the Administration proposed the elimination of direct lending in favor of an interest subsidy program./2

Restrictions also have been placed on the Bank's authority to lend to certain countries. These include the ongoing restrictions on loans to the Soviet Union and other communist countries which do not recognize the right of emigration, South Africa, and Libya. During the Carter Administration the Bank was restricted, for a time, for "human rights" reasons from supporting exports to Argentina and Chile and this placed a cloud on the possibility of Bank support for exports to a number of other countries whose record on human rights was not better than that of those two countries. Such uncertainty as to the availability of Bank support for transactions which may be a year or longer in the planning and bidding phases provides a powerful incentive for certain companies to source their exports in countries which provide, consistently, fully competitive export financing. In other words the U.S. loses the business and jobs.

This uncertain outlook for export financing is of course not confined to the past. Although the U.S. government is now in the second month of FY 1986, it is not clear whether Eximbank will be funded at the "high" level ($1.8 billion) authorized by the congressional budget resolution and the Senate Committee on Appropriations (a level $2 billion below the level authorized in FY 1985), the low level authorized by the House Committee on Appropriations ($784 million), an interest subsidy program ("I-Match") proposed by the Administration in its

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1/ See MAPI letters of October 10 and October 26, 1984 to William H. Draper III, Chairman and President of the Export-Import Bank concerning the lack of progress by the Administration in implementing an effective program.

2/ See MAPI letter to President Reagan and interested Department heads, December 27, 1984. Also see MAPI statement to Senate Committee on Banking, Housing and Urban Affairs, February 12, 1985.

FY 1986 Budget, or some combination of direct lending and an interest subsidy program. A company working up a bid proposal which has the option of supplying the export from overseas sources may well question whether U.S. export financing support will be available if the company wins the order some months in the future.

The cost.--The continuing, massive deficits in U.S. balance-of-trade and balance-of-payments accounts are of course familiar. Also well known is the impact of the trade deficits in the U.S. manufacturing sector. One aspect of the U.S. competitive problem--although one which cannot be documented so clearly--is the shifting of sourcing for foreign markets from the United States to overseas manufacturing facilities of U.S. firms. While such sourcing decisions are made for a number of reasons, particularly lower cost, the availability of competitive export financing is also an important factor in many such sourcing decisions. The following comments bear on this point:

-- During 1981 the Export-Import Bank was inoperative for several months while the new Administration was developing its policies, and subsequently was lending at interest rates well above those of its major competitors for the remainder of the year. In early 1982 MAPI surveyed a limited number of its member companies covering instances during 1981 in which they sourced from a foreign subsidiary or other foreign affiliate in order to provide competitive export financing. Of the 39 companies surveyed, 14 reported that 39 transactions, with a dollar value of $386.7 million, were diverted in 1981 to foreign affiliates primarily, if not exclusively, because of more attractive export financing. For reasons we need not detail here, these results understate the exports "lost" by the reporting companies.

-- Much of the business lost to foreign sources, affiliated and unaffiliated, may not return to the United States for the foreseeable future. The shifts which have taken place--due in large part, but by no means entirely, to the high value of the dollar--may become permanent because of the upgrading of the technology and the state-of-the-art production experience of foreign producers. In addition to the cost advantages of many foreign locations, in those cases where heavy equipment and/or large projects are involved, companies may elect to centralize production of certain items--particularly those requiring extended financing terms--in countries where there is the prospect of more consistent export financing support than in the United States.

-- Capital goods orders lost currently also result in substantial losses of future business. Many orders for "big ticket" items, such as capital goods, are placed at infrequent intervals--in many cases at intervals of several years, or even a decade. When the initial order is lost to a foreign competitor, that competitor obtains the substantial business in repair parts and spares which follows for a number of years and also is more likely to be the favored supplier when there are additions to capacity. It should be noted that shipments of parts, which over a period of years tend to equal the dollar volume of the original equipment, do not normally require government-supported financing.

This concludes our comments. Please let us know if MAPI can be of further assistance in the Subcommittee's deliberations concerning this legislation.

Sincerely,

Charles Stewart
President

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